Export drive fails to gain union commitment

GOVERNMENT - appointed Export Year adviser Alan Topham played down a major goal which the campaign failed to achieve in his final statement marking its end.

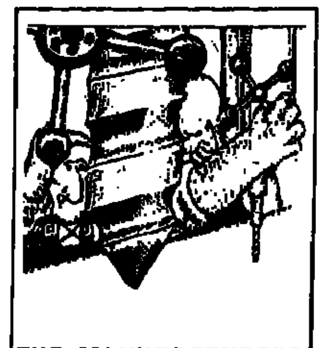
That was the failure to get a commitment from the trade union movement to give priority to exports.

What Ceramco's Topham was seeking from the unions during his 18-month tenure, was publicly stated full trade union endorsement of the aims of Export Year.

But the unions would have none of it.

He said: "It is disappointing that the trade union movement has been reluctant to commit itself to a policy of priority for exports, but this does not mean that trade unions have at all time withheld their co-operation."

Topham has shied away from delivering his true feelings publicly. But insiders say he has been deeply disappointed by union indifference, a feeling shared by



THE MANUFACTURERS

Export Institute senior officials.

Privately, Topham has told exporters that union co-operation for Export Year — and exporting generally — is much needed.

But he fears the unions still regard the export drive as an ulterior motive by manufacturers to get more effort out of their workers.

Sources say Topham was unable to establish any dialogue in the north with the influential Auckland Trades Council.

One insider said: "They wouldn't even talk to us."

ATC president Bill Andersen says he met twice with Topham during the export campaign, the second time with Allan Hellaby in support of Topham.

He told NBR: "We didn't achieve anything and I'm not enthusiastic about it."

Andersen says there are many basic problems standing in the way and questions whether exporting is a valid policy.

"For everything exported we still have to keep importing. Even dairy products require imported machinery and equipment, and we must import raw materials and oil to keep factories running," he said.

Andersen says his main objection is that exporters cream off incentives and pass nothing on to workers.

"Exporters get fat allowances but still pay workers employed in exporting, the same rate as those producing for the local market."

BILL ANDERSEN . . . takes tougher line

He says this creates distortions. He claims workers get between only 1 per cent and 2 per cent of the export bill anyway.

But he cites Tasman Pulp and Paper as an exporter which does pass on incentives to its workers.

KEN DOUGLAS ... discusses a project.

"They're one of the country's biggest exporters and pay their workers 57 cents an hour bonus," he said.

FOL secretary-treasurer Ken Douglas says he is not sure trade unions would want to support the concept of increased exports as a way of improving the economy.

"It's a bit of a fallacy," he said.

While the country is exporting manufactured goods and food commodities, many workers here cannot afford to buy food for their families, he said.

Douglas agrees with Topham's observations that management needs to have faith in workers and demonstrate that faith in a face-to-face manner.

And no-one could argue that the practical approach Topham used in Export Year to reach people on the factory floor was not a good example for others to follow.

But most haven't.

"It's true about all aspects of management," Douglas commented.

Topham, in his final statement, said: "I have been hoping for some constructive suggestions from the trade union movement and have been trying to find common ground. Exporting success is in their own interests, as it will mean more jobs and better conditions in the future."

But exporting has provided a platform of attack on trade unions by some quarters, and the movement as a whole may have come to regard calls for productivity during Export Year as a Government ploy.

For example, Prime Minister Rob Muldoon opening the New Zealand Export Services Fair at Auckland on June 27, launched a bitter attack on those very trade union leaders Topham had been trying to win over all year.

He said: "Some of you rightly feel that you have a challenge to greater efforts against a background of disturbing conditions on the organised labour front. I would be the last to deny that."

"Too many in positions of power in unions which have muscle pursue their own courses because they suffer from the delusion that the jobs of their members are not under permanent or at least lengthy threat."

"The 'muscle' men should quickly rid their minds of the 'I'm all right Jack' philosophy," he said.

Nevertheless, union leaders have responded on occasion to calls for help from exporters whose orders have been threatened by industrial action.

Douglas says, for example, that there was co-operation in Napier during the ... dispute, to export a consignment of apples.

Bill Andersen takes a slightly tougher line.

He says he has been approached during industrial stoppages to help get exports on the move, but he says he can't order workers to respond.

"We are going into the question of exports more deeply in the next few months as part of the FOL's economic policy," he says.

Ken Douglas confirms that the FOL is "discussing a project" with the Manufacturers' Federation which is still considering.

In July, Manufacturers' Federation president ... Turnovsky announced a study being conducted jointly with the Planning Council and the Manufacturing Development Council on making use of the advantages the country could muster to meet the export target of 20 per cent in manufacturing products.

He warned that such a plan could not succeed without trade union co-operation and the federation would do all it could to convince unions that export-led growth was far more likely to satisfy their members aspirations than fighting for "an even bigger slice of an ever shrinking cake".

Many manufacturers ... see this as a last opportunity to get the trade union movement involved in "exporting to prosperity".

Failure to do so ... probably cause bitter ... resentment and a wider ... between the unions and the Government, which has committed itself to improving our lot by exporting, and other anaethema to trade unionism, foreign investment ...

NATIONAL BUSINESS REVIEW

60 cents

Volume 9, No. 40 (Issue 357) October 24, 1979

Government grasps power to override acts by regulation

by Ray Mazengarb

THE Government's currently alarming trend toward taking more and more power into its own hands continued unabated last week.

This dramatic trend toward rule by regulations was reinforced when it introduced another amendment to its Commerce Amendment Bill.

The original bill, brought down at the height of the drivers award confrontation on September 18, has been attacked by legal and business circles alike.

The bill tightens the Government's already strong grip on price controls. It was designed to "stop transport firms passing on excessive wage rises in price increases".

It goes much further, allowing Cabinet to pass regulations to limit profits, freeze prices and tell companies how they should calculate their prices.

Moreover, the bill is designed to be used selectively against particular types of goods or services, even individual businesses.

And during the committee stages earlier last week a further amendment was added to the bill closing what appeared to be a possible loophole and thus strengthening the measure even further.

Legal and business circles have both expressed concern about what appears to be a preponderance of this type of legislation.

The Commerce Amendment Bill was labelled just a "blatant grab for power", and its purpose can only be to punish those who do things the Government does not like.

The Commerce Amendment Bill (No 2) was also introduced two weeks ago but was confined more to controlling and cleaning some aspects of trade practices and the functions of the Commerce Commission.

The New Zealand Chamber of Commerce spoke out last week against two Commerce Amendment Bills before Parliament, saying they were frightening in their breadth and "potentially dangerous legislation quite inimical to (their) avowed principles".

Together they give discretionary power to a minister and a Government which is virtually unrestrained by the courts or outside agencies, Chamber of Commerce president David Fine said.

"The powers could be used to achieve political or economic ends far removed from the normal ambit of price restraint," Fine said.

The powers are exercisable without reference to the Commerce Commission and without any opportunity for discussions, opposition or impartial consideration, he said.

A group of Auckland lawyers has also lashed out at the legislation.

It is understood the Public Issues Committee of the Auckland District Law Society — an autonomous body of lawyers who speak only for themselves and do not necessarily reflect the views of the society — are in the process of drafting a paper citing three recent examples of the pattern developing in legislation.

The paper discusses generally the use of regulations, focusing mainly on the National Development Bill, but it is understood it is highly critical of the recent commerce amendments.

Barrister and lecturer in law at Auckland University, John Hannan, said the commerce legislation was potentially "nasty" in that it could hit out at individuals.

He said he did not fully understand the purpose of introducing legislation which created powers which were already basically available under the Economic Stabilisation Act and the main Commerce Act.

It was potentially a powerful weapon to hang over the heads of industry. So powerful, said Hannan, that regulations made under the legislation could possibly be struck out by the courts as ultra vires and outside the purposes of the parent act.

The criticisms aired so far run along similar lines to remarks made in the House last week by newly-elected Labour back-bencher Geoff Palmer, whose comments left National MPs undeterred in their belief that powers given under the legislation were justified and necessary.

Reasons advanced by Government for the need to make regulations under this legislation were several:

- That it was a companion measure to the Remuneration Act;
- That it could be used to prevent unions "massaging" employers into settlements;
- That it was part of a planned coherent packaging relating to price restraint.

But Palmer, in an interview said the bill permitted the Government to intervene for virtually any reason to restrain prices.

"If the Government were sincere in their desire to restrict excessive wage settlements, then why not say so in the bill and define in some principled manner the settlement to which the bill would apply. The bill is devoid of any ascertainable principles," he said.

If the bill is to prevent the excessive use of industrial muscle, it is still vague in that it fails to specify what methods of inducing wage settlements are objected to.

This bill, the Remuneration Act, Fishing Industry Union Coverage Bill and National Development Bill, all have one feature in common, he says.

"They take power to give the Government or Minister power to override Acts of this Parliament by regulation — regulations which can be made when Parliament is not sitting".

He pointed out, "regulations are supposed to be subordinate to Acts of Parliament . . . . Regulations are not the place for major policy.

Inside:

Maui decision precedes key reports

by Reg Birchfield

THE Cabinet Economic Committee is expected to make a decision on the utilisation of Maui gas on November 6.

What is worrying some political and industry circles is that it will make its decisions before it has considered two key reports.

The Liquid Fuels Trust Board should produce its report on the development of a methanol plant and a synthetic fuels facility this week. And Petrocorp is awaiting a full feasibility report on its $1500 million synthetic fuel and petro-chemical complex from the world's largest petro-chemical engineering firm, Fluor of the United States.

There has been concern that Energy Minister Bill Birch and his Undersecretary Barry Brill favour the BP and Mobil proposals for methanol and synthetic fuel and are insufficiently interested in considering the independent Fluor report.

The question that really confronts the Government is, how far it should go in handing over the New Zealand's natural resource to the multi-nationals and how far it should go in keeping a high level of local involvement?

Petrocorp's proposal is based primarily on the use of the South African developed Fischer-Tropsch process for synthetic fuels. There is a degree of political sensitivity in using the Sasol (the South African company that has developed the originally German concept) method of manufacturing synthetic fuels.

The political manoeuvring in the pushing of the various options was particularly intense while the Prime Minister was out of the country, but now every attempt is being made to ensure that no decision is made until the two key reports have been compared.

The Fluor report is expected within the next two or three weeks and should provide a fair comparison of the options.

BP and Mobil are understood to be confident about winning the battle. But other experts are concerned that perhaps the multi-nationals are pushing for projects which fit well into their global plans for sourcing amonia and methanol. This might not be however as much to New Zealand's long term and income advantage.

On the other hand, if the Fluor study shows that the Petrocorp scheme is not the best option then the Government can proceed with a greater degree of confidence.

Inflation: words, statistics and damned word

by Colin James

THE Prime Minister on January 17, 1978: "1978, then, in the absence of some factor not yet apparent, is likely to be the best year from the cost of living point of view since 1974."

(It was, by far. The increase over the year was 10.1 per cent, two-thirds the rate in the previous three years.)

On July 11, 1978, the Prime Minister described the 2.6 per cent rise for the June quarter as very encouraging and said single figure inflation should continue into next year.

On August 17, 1978: "The fourth quarter is somewhat unpredictable, but I still hope we will go into next year with a much lower level of inflation than the 15 per cent or so we have had for several years." (We did.)

On January 16, 1979, in the state of the nation speech at Orewa: "There is no need for excessive price increases this year...

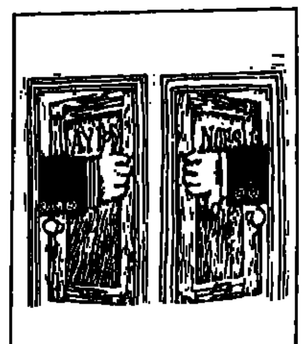
"Overseas price increases which may move a little more rapidly this year will continue to affect us, as will, of course, the increased prices that we are getting for meat in our overseas markets, and which will reflect in domestic prices.

"I am not prepared at this stage to accept the estimates that some people are making of an increase in the consumer price index to 12 per cent in 1979."

On March 3, 1979, to the Young Nationals: "We are now past the point where we had to live with galloping and accelerating inflation."

On May 2, 1979, to the Wellington Chamber of Commerce: "The rate of *inflation has got down to about 10 per cent as we had expected. It* is likely to move upward slightly, but given restraint in wage-fixing there should be no chance of a return to the rate at the time of the change of Government in 1975.

"It is a fact that the basic or underlying rate of inflation is now well down on earlier



POLITICS

figures."

On July 24, 1979, in his state of the nation telecast: "There are two major threats: energy and *inflation*...

"There has been a temporary and non-recurring increase in the rate of inflation during the last quarter and although it is likely to be repeated in the current quarter it should not continue significantly beyond the end of September."

On August 27, 1979, to Auckland manufacturers: "At the beginning of this year I had a prediction from some of my advisers that given the kind of policies that we were implementing, domestic activity would be at about the level of activity that we had in 1976, but that the rate of inflation would be lower ...

"The inflation picture has, of course, been complicated by the upward movement in oil prices following the deposing of the Shah of Iran ...

"For that reason it is not possible, even at this time of the year, to say what the rate of inflation will be for the calendar year 1979.

"I would still be astonished and disappointed, however, if it was as high as the 15.6 per cent of 1976."

On August 29, 1979, to Wellington businessmen: "Any calculation of the consumer price index movement for the third and fourth quarters that is made at the present time must be subject to a wide margin of error."

October 14, 1979, report from the Government Statistician: the movement in the consumer price index for the quarter to September 30, 1979, was 5.0 per cent.

The movement over the 12 months to September 30 was 15.2 per cent, the highest since the 1977 calendar year.

The movement over the first nine months of 1979 was 12.2 per cent. A movement of 3.1 per cent in the fourth quarter would give a 15.6 per cent inflation rate for 1979.

But let's go back to the Prime Minister on January 16, 1979: "The impact of the increased Government deficit this year and next will be loaded in terms of time and will fall particularly heavily during the first two quarters of the next fiscal year, that is to say, the June and September quarters" (of 1979).

And let's relate that to the January 17, 1978, promise by him that: "...1978 will not be a year when we will be courting popularity simply because there is an election at the end of it."

And then consider his comment, as reported in the New Zealand Herald of last Tuesday, that "apart from the United States, he doubted whether any country he visited on his latest trip had a lower inflation rate".

Put that beside a press release by the Organisation for Economic Co-operation and Development (OECD) of October 9, 1979, which stated that the overall increase in OECD countries in the 12 months to August was 10.3 per cent.

That was below the OECD's figure for New Zealand of 12.4 per cent, calculated as "the rate of change over four quarters to the latest quarter available" (apparently the June quarter, judging by the Government Statistician's figures."

Eight of the 24 countries reported on were worse and the other 15 better than New Zealand. Germany, where the Prime Minister went for a ship launching, was rated at 4.9 per cent.

And, according to the OECD's calculations of a 12-month rate for the movement in the six months to August, Germany's rate was 5.5 per cent, compared with New Zealand's 14.3 per cent, using the six months to June (or 20.3 per cent if one takes the six months to September, by my calculations).

The total OECD rate calculated on that basis was 12.7 per cent.

Of course, as the OECD points out in its press release, this calculation "may not provide a reliable indication of the current rate of inflation if there has been a significant speeding up or slowing down in the course of the periods in question."

Well, over the three months to August the overall increases in OECD prices were 0.9 per cent for June, 1.2 per cent for July and 0.6 per cent for August — a compounded total of 2.7 per cent.

The same figures for Germany were 0.4 per cent, 0.6 per cent and 0.1 per cent — a total of 1.1 per cent.

Both figures would need a big boost in September to match New Zealand's 5.0 per cent September qua[...] crease. In that conte[...] interesting that ou[...] OECD countries [...] Germany) the month[...] August was decisive[...] than for any of the p[...] three months.

So what, one might [...] not the flexible exchan[...] policy introduced [...] Budget automatically [...] out the effect of New Ze[...] higher inflation rate [...] balance of payments?

Well, yes. And no.

The problem is [...] devaluation of the do[...] account for excessive [...] exporters' costs will [...] back into the inflatio[...]

This in turn will [...] unions to seek higher [...] increases to match pr[...]

If there is sufficient [...] any such pass-on [...] or if the pass-on is [...] this need not be a p[...]

But if there is a [...] it happens quickly, [...] danger of a spiral de[...]

There are other co[...] a high inflation rate. [...] producer confidence, [...] undermines the expor[...] it usually discourages [...] undesirable at the be[...] an investment-hungry [...] and people with re[...] gain at the expe[...] creditors (in other word[...] good thing for people [...] or high mortgages).

It therefore adds [...] political problems [...] Government that is [...] persuade us to live [...] country's means.

Eventually, we [...] — whether by [...] holding out until [...] expand to match [...] of living or by [...] standard of living.

That is behind [...] ment's attempt [...] wages as we [...] current inflationary [...] attempt starting [...] some coherence [...] knocking back of the [...] and packers' [...] allowance.

There is another co[...] the effect on farmers, [...] we will depend for [...] decade at least.

According to one [...] economic study, New Ze[...] exchange rate mainly [...] broadly maintained the [...] taking) farmers' positi[...] 1960 to the mid-1970s [...] of declining real [...] prices. At the same ti[...] international competi[...] of the (price-[...] manufacturing [...] improved greatly.

The automatic ex[...] rate shifts are al[...] holding manufacturing [...] petitiveness and are [...] no guarantee that [...] position will be uphe[...] overseas pric[...] agricultural produce [...] to fall over the longer [...]

Inflation, therefore [...] important political [...] as part of a [...] balancing act involving [...] the balance of payme[...] unemployment.

The political debate [...] move on from jibes ab[...] accuracy of prediction[...]

There are deeper issues [...] Prime Minister's [...] caution about future [...] rates indicates that [...] aware of that.

NZ's stake in BANZ remains in state hands

by Bob Edlin

ORIGINALLY planned to be operational by the end of last year, the joint-venture free-port cool-store project in Bahrain was opened the other day.

But New Zealand's stake in the project remains in state hands.

Despite official declarations of intent to attract investment from private enterprise in this country, the means for investing have yet to be established.

BANZ has been one of Prime Minister Rob Muldoon's pet schemes.

He expressed delight at being present for the opening of the cool store complex by the Emir of Bahrain.

With the opening "we find that New Zealand commercial interests are keen to become involved in what will be a major foothold for us in the Arab world, extending throughout the whole of the Arabian Federation", Muldoon enthused in his weekly Truth column.

Commercial involvement has been talked about for at least two years.

Export-Import Corporation chairman Bill Revell told NBR in October, 1977: "We will be making a real endeavour to involve other companies. Our hope is to do this through a new company set up in New Zealand which owns this country's shares.

"We want the business people to own it, to have a financial involvement. That's the best way to ensure the long-term success of the project."

Revell explained then that *consideration was* being given to setting up a company to attract broad-ranging participation in the project.

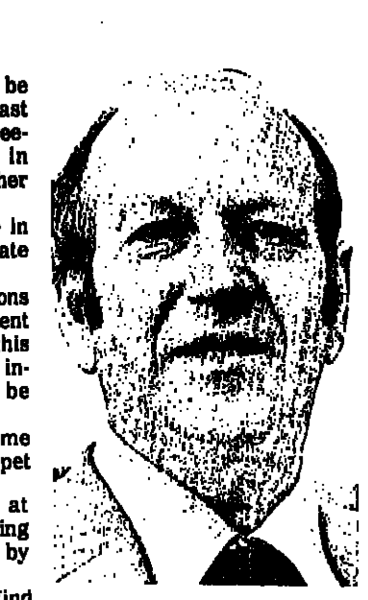
This company would hold New Zealand's shares in BANZ.

BANZ was set up with 51 per cent Bahrain and 49 per cent New Zealand shareholdings.

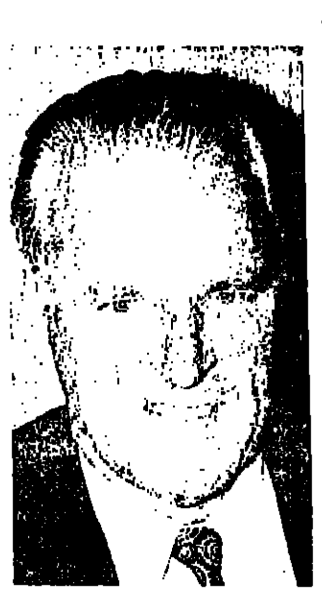
It was established as an ordinary limited liability company with a capital of some $3 million.

Three Bahrain companies — the Bahrain Investment Company, the National Export and Import Company, and the Processing and Domestic Foodstuffs Company — were involved from the start.

The New Zealand shareholding remains with the Export-Import Corporation.



JACK McFAULL . . . key policy matter.



BILL REVELL . . . involve other companies.

New Zealand's shareholding was funded by the Government, which took up the shares at $2.50 each.

Three of the five directors were nominated by the Bahrain Government, and two by the New Zealand Government.

But the question raised in 1977 was: whose interests will the two New Zealand directors represent?

In the meantime, the directors would be Revell and Prime Minister's Department official Jack McFaull.

Because of private-enterprise apprehension at the nature of the State's involvement, and to settle the problem of deciding the New Zealand directors, the establishment of a separate company to hold the New Zealand shareholding was deemed prudent.

It would broaden the base of New Zealand's shareholding, and it would have its own directors — perhaps eight of them.

They would choose the two directors to sit on the BANZ board.

Shares in this company would be sold to all New Zealand interests which wanted to become involved.

Revell said he hoped to attract many interests, each with small parcels of shares, rather than a few dominant groups holding big parcels.

In November 1977 Overseas Trade Minister Brian Talboys reiterated that a holding company would be established to take up the shares held by the Export-Import Corporation.

He invited participation in the holding company, pointing out that exporters would thus be put in direct contact with the Bahraini shareholders, who were influential traders in Bahrain and other Gulf states.

At that time, Talboys said the direct roles of the New Zealand and Bahrain Governments in the development of the port facility were nearing an end.

In April last year, NBR found that no progress had been made in setting up a shareholding company.

But a prospectus was expected by the end of the year.

"It has been a key policy matter that New Zealand companies become involved in BANZ," said McFaull.

But the shares would not be offered until the Government had something tangible to offer, he said.

"It seemed unfair to ask New Zealand companies to become part of a company in Bahrain that won't be in operation for a full year," said McFaull.

So the holding company would not be set up until the project was further advanced.

The holding company at that time at least, was being planned in outline, but the prospectus would not be issued till BANZ construction work was well under way.

In June this year, NBR reported that the Government had applied to the Companies Office for permission to register a holding company, BANZ New Zealand Ltd.

It seemed it would be the company that controlled this country's shareholding in the project.

It is a wholly owned subsidiary of BANZ, and has a Wellington-based manager.

His job, is to identify New Zealand products which best meet trade inquiries located by Bahrain-based BANZ representatives in the Middle East.

BANZ has also appointed its manager and marketing manager in Bahrain.

But there seem to have been second thoughts about the way in which the New Zealand directors are appointed, and the role of the Export-Import Corporation.

Exporters have been told the Government would like the corporation to retain a sufficient percentage in the holding company to guarantee that one of its nominees would be a director of BANZ.

Auckland Export Institute members met late in June to discuss the Government's proposals.

Export Institute members in other parts of the country have discussed proposals since then.

Export Institute Director Ross Southcombe said recently the institute's members, in his opinion, were taking a wait-and-see attitude.

The Export-Import Corporation did not pressure private companies to take a stake until it proved the concept viable, he said.

Southcombe said he thought Government was doing the right thing by not asking for public participation until the viability of the project had been established.

EDITORIAL

IF EVER there were a time when leadership was of paramount importance in New Zealand, it is now. It may be that the sense of spring after a long winter is responsible for it, but whatever it is there is the stirring of optimism despite the high rate of inflation.

American management expert Peter Drucker once wrote: "...the paralysis which tends to afflict a modern economy in a depression, is not economic in nature. It is caused by all the social dislocation and the psychological shock of the depression itself".

What in effect, Drucker was saying, was that recessions cannot be cured until the population is led to believe that better times lie ahead, and confidence is the key to affecting the recovery — not tinkering with fiscal policies or dishing up another dollop of wage and price controls.

New Zealand now has to eliminate what I will call the negative factor. Positive and co-operative elements of political leadership are vital to the recovery process. Strong leadership can no longer be interpreted as heavy handed, tedious, unimaginative and down right aggressive attitudes — and the strength of political leadership is in sensing that change in emphasis.

The Pope, *faced with* severe doctrinal dilemmas in his administration, has perhaps sensed just what leadership is about if the coverage of his recent trip to Ireland and the United States is anything to go by.

The man, from all accounts is orthodox and hard line, yet by *adopting a posture of humanity he is making greater progress* in the task than the reformers who went before him, but who presented to the world a face of austerity and untouchability.

As Time magazine reported last week: "It is a strategy as radical in its way as some of the Pope's doctrinal views are conservative, but well adapted to John Paul's personality and the world's eagerness for leadership".

During the weeks the Prime Minister was out of the country, New Zealand seemed once again to be adopting a mood of co-operation and conciliation. It was disappointing therefore, that from the moment his legs touched the tarmac *at Auckland international airport, a fresh sense of* despondency and agitation appeared to touch down with him.

The opportunity for the Prime Minister to be pleasant but firmly honest and frank about present problems, positive and realistic about future potential and even conciliatory to those who have had criticism to offer, was tossed off like so many of his remarks of contempt for individuals. Television viewers were treated to another book keeper's diatribe instead of a statesman's inspirational message, and a protagonist's threat rather than a leader's encouragement.

New Zealanders need assistance to lift the pall of gloom that has now hung over the country for four years. Nothing can be done about the weather but it wouldn't take so much to create a more clement climate for renewed confidence and economic growth.

The other *members* of the Government should also be *aware of this* country's inner-most needs and the *plethora* of dangerously repressive legislation currently raining down gives absolutely no indication that they appreciate what is lacking either.

Is all this attack on society and on parliament just individual administrative incompetence, or is it part of an overall preparation for things far worse to come?

The evidence points to a potentially bright future for New Zealand — the deeds so far suggest this Government is unaware that there are ways of achieving it without sacrificing the individual, enterprise and maybe selling the nation down the drain to outside investors.

Reg Birchfield

TODAY we are appalled that battles were waged a century ago against child labour and baby farming, or in favour of clean water and sewage systems. In another hundred years, people will be similarly shocked at the delays of today in taking tough measures against smoking. This is cold *comfort for tobacco* manufacturers from Planning Council chairman Sir Frank Holmes.

Irked by the Planning Council's nasty remarks about smoking in its document "The Welfare State", the Tobacco Manufacturers' Association countered with a response critical on numerous counts.

Though declining to take up the association's challenge point by point, Sir Frank has found one point of agreement with the manufacturers.

He agrees that "a full and informed discussion of the health controversy surrounding smoking is in the public interest," and that only full exposure to such a debate will enable people to become well-informed enough to make a true choice.

The tobacco industry continues to insist that the correlation between smoking and disease is only "statistical" but not "scientific".

But Sir Frank said he finds it "difficult to differentiate between scientific and statistical evidence" in showing the cause of disease.

He quotes the 1979 United States Surgeon-General's report on smoking and health which claims that the attack on the scientific and medical evidence relating to the adverse effects of smoking is tantamount to an attack on science itself.

He takes up the tobacco men's contention that cancer is caused by a genetic predisposition to the disease. Some doctors think so, agrees Sir Frank — "but if smoking unmasks or precipitates an hereditary tendency to lung cancer, bronchitis or heart disease which would otherwise remain latent, then clearly smoking is to be discouraged in the community.

Non-smoking should be regarded as normal social behaviour, according to the World Health Organisation.

And the Planning Council agrees that the directors of preventive public health programmes should be working towards this end. The council's suggestions, at which the Tobacco Manufacturers took umbrage — namely advertising restrictions and increased taxation — were directed to this result.

The council agrees with the manufacturers on a further point.

Yes, reducing tobacco consumption would have widespread economic effects. But this would have only a short-term effect on the livelihoods of individuals.

But one should not exaggerate the speed of the change, argues Sir Frank, nor underestimate the possibilities of adjustment by those affected.

He points out that in the United Kingdom over the last 30 years, several major industries — the railways, shipbuilding and cotton manufacturing have had to contract or alter direction and "versatility is a product of change..the same should also be true of those working directly or indirectly in the tobacco industry."

Finally, while the economic wellbeing of the nation is important, Sir Frank suggests, public health should be equally prominent among the areas which concern any government.

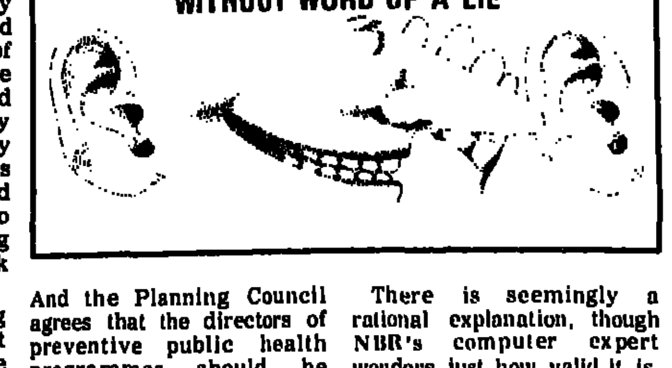
●

THERE are 20,922,790 million ways of rearranging 16 digits and 6227 million ways of arranging 13.

And there are 4000 million people in the world, give or take a million or two. Which is all very puzzling.

Assume everyone, and we *mean everyone, succumbs to* the plastic money system, there are still 20,918,798 million numbers spare.

WITHOUT WORD OF A LIE



There is seemingly a rational explanation, though NBR's computer expert wonders just how valid it is.

Bankcards 16 numbers are arranged in a six-five-five formation, the first group is the Geneva based International Standards Organisation's number for the system plus a bank identification number. The rest is the customers identity and a systems check.

National Bank's visa's four by four blocks are a world first for the Visa network.

Originally, a Visa code had only 13 digits, a block of four and three blocks of three as has the Bank of New Zealand's Visa system.

Visa now has more than 9999 banks in its network and needs a bigger number to cope with identification.

That's all very well, but organisations, NBR included, wanting to offer clients an opportunity to pay with plastic money rather than by cheque must now print at least five rows of little boxes for the appropriate numbers.

●

AS THE oil giants and the state owned Petrocorp vie for the right to use Maui gas, Taranaki is becoming hot property.

BP has already taken options on large tracts of the province and rumours reached Radio New Zealand recently of more buying around Tikorangi.

Deciding to investigate, reporters tried to ring several likely farmers but were thwarted by a telephone fault in the Tikorangi area.

By a strange coincidence, Petrocorp was moving its *drilling rig from the un*successful Toko hole to a new site at McKee bringing telephone wires crashing down. Meanwhile the buyer — Petrocorp — busy working through Wellington solicitors.

●

THE "Nothing matches" people are beat when it comes marketing ingenuity.

With a local match wouldn't light or went out only a flicker, or even would break, Wilkinson had a problem.

But no more. All millions of useless matches, which were ticularly difficult to light being stored for three are being beheaded for model house building.

Mobil is marketing models under the label through its stations on a six month Mobil and Wilkinson have a similar arrangement England.

And as a sequel, Coast red beech will be burnt as matches extensive research beech was found to be suitable New Zealand for matches. But expensive mistake.

The company returned to importing from Canada while further research suitable local timber.

●

ONE of our legmen bulating through Wellington suburb decided to combine research with his

Through main streets back streets he carless day exemption on vehicles parked roadside.

This was a check the proportion of vehicles not to whether they were on the specific

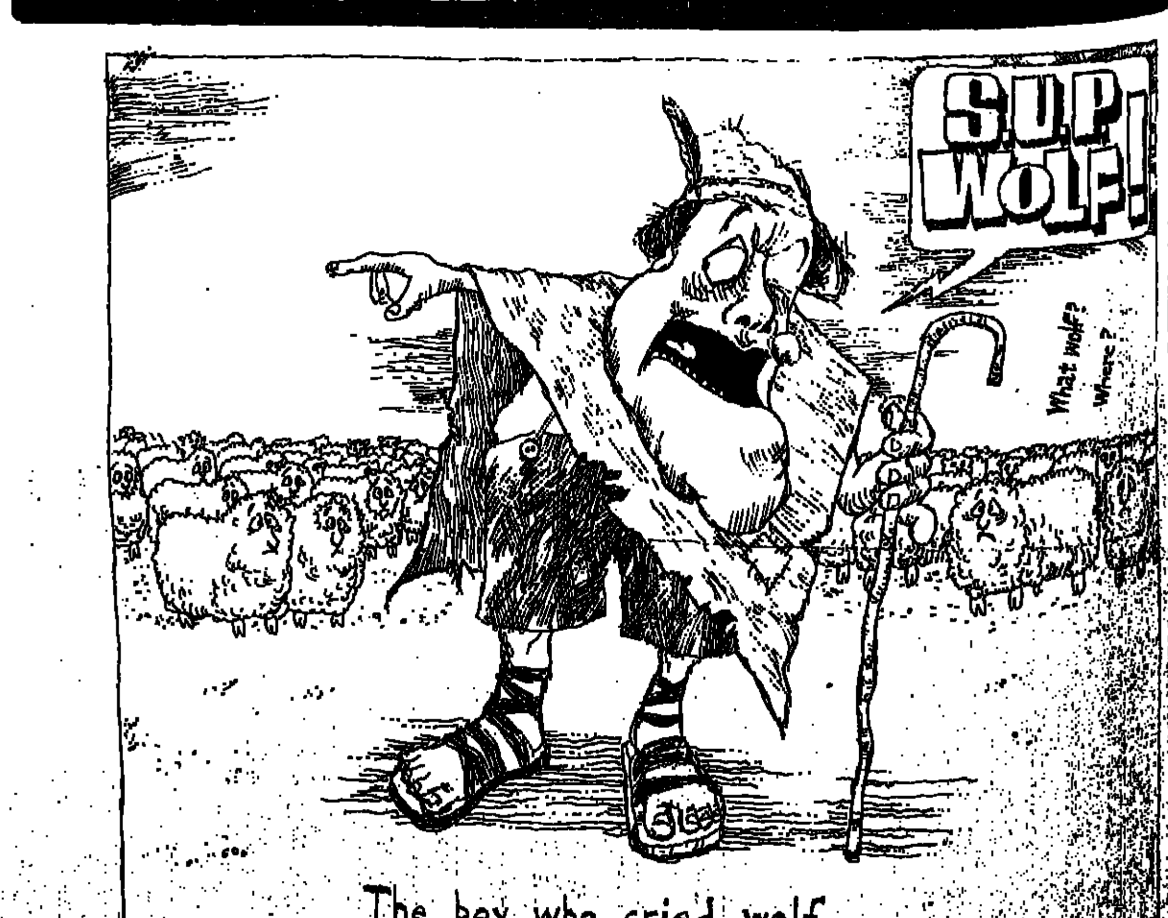
He tallied a vehicles of which sported an X sticker.

So, in this finding cent are X-cused carless day.

When legislation for emergencies circumvented privileged, it is to be that resentment will

When the abuse takes appearance of a respect for the law completely.

BROCKIE'S VIEW



Editor: Bob Edlin. Editorial: Ralph Green (Production Editor), Rae Mazengarb, Colin James, Belinda Gillespie, John Draper.
Advertising Manager: Paul A C S Loh. (P O Box 9344, Telephones 736-876, 859-019, Wellington.)
Auckland office: Editorial, advertising inquiries: Warren Berryman. Telephone
Published by Fourth Estate Newspapers Street, Wellington. Printed by R Lucas & Son Ltd, 15 Bridge St, Nelson.

IAN Brackenbury Channel, Hammer of the Heretics, Wizard of Christchurch and Prophet is willing to prostitute himself to bring in the tourist dollars.

His intentions, as befit the leader of the Imperial British *Conservative* Party and Commander in Chief of Alf's Imperial Army, are entirely honourable — to keep New Zealand beautiful, free from industrial pollution and yet, economically healthy.

And as seems usual the Australians have been the first to see the potential of the wizard's magic.

Early in December Mr Channel could be *making* lightning visits to Sydney, Melbourne, Adelaide and Perth to promote the Garden City and the South Island.

Ironically, the City's fathers choose to ignore the Wizard and made several attempts to evict him from his regular lunchtime platform in Cathedral Square.

With fan clubs already in the United States and across the Tasman, Mr Channel is already becoming synonymous with the South Island centre around the world.

And to satisfy the growing army of fans, his followers and regular troops in the Imperial Army are printing posters of their leader, charts devised by him and his very own map of the world based on Wizard Projection with a guide to the British Empire.

Mr Channel claims he is not interested in the financial aspects personally, though he does have a final, final demand from his dentist to pay, "I hope to make people more playful," he said.

"Progress destroys the mind, the soul and ultimately the world itself from pollution "

A few cosmetic changes to the New Zealand landscape are envisaged by the Wizard in his new role as tourist supremo.

"We need more castles, one on every hill, and more armies," he said.

Potential recruits will get a chance to test their mettle by lining up to resist the invasion of Napier from the sea by Alf's Imperial Army on December 1.

●

THE streets of Zurich were awash with gold as the yellow metal dizzily climbed new peaks.

Fever struck speculators jingling gold coins in their pockets and clutching miniature ingots gathered around the banks' pricing boards in the Swiss commercial centre.

A New Zealand businessman stricken with the contagious excitement and the shock of only getting 1.50 francs for his dollar sought expert advice.

"The world is going crazy," the Suisse Bank's vice president told him. "The price cannot go any higher, so don't buy."

And respecting the words of a man who lives in the heart of one the world's great commercial centres, the New Zealander decided not to buy that day.

Gold went up $40 an ounce overnight.

NBR understands one disillusioned businessman is now seen occasionally mingling with crowds around *the banks resenting each gold* price rise.

●

THE Law Society's fidelity fund could come in for a million-dollar pounding later this year.

NBR understands that several big claims are likely to be lodged against the fund in the near future resulting from an investigation by the society into the affairs of a sole practitioner.

Besides embarassing the legal profession, the claims are likely to be a severe drain on the fund's $750,000 balance.

Around $300,000 a year is paid into the fund by practising solicitors and barristers, who may be called on to pay a special levy if the society is unable to recoup its losses from other sources.

Provisions in the legislation *controlling the fund oblige the* society only to pay out on those debts incurred by solicitors while practising.

●

WE may have done a disservice to the man behind the resuscitation of the Perpetual Trustees Estate and Agency Co Ltd, Sid Chatten.

Our article on the sale of the shares in Perpetual to an AMP subsidiary might have given the impression the sale was privately negotiated between the Statutory Board appointed to manage Perpetual's affairs and AMP. (NBR October 10).

That was by no means the case. For the record we'll spell out how the sale was handled.

According to the provisions of the Trustee Companies Management Amendment Act 1978, the Statutory Board, having received indications of interest in the acquisition of the shares from a number of reputable companies, referred them to the Minister of Justice. Six were approved by him as acceptable potential purchasers.

Each was supplied with *identical information* regarding the company's financial position and invited to make an offer on the shares.

Ultimately three final offers were received and opened on the same day by the board's secretary, Bob Stannard, in the presence of both Chatten and the Public Trustee. AMP's offer was the highest and was naturally accepted in view of the interests of creditors and shareholders.

We referred in our article to Chatten's invitation to join the new board of Perpetual. That offer was made sometime after AMP's purchase of the shares in the company.

Chatten tells us this was intended to be for a limited period only, mainly to ensure a degree of continuity at board level in the management of the company's affairs.

●

A NEW sporting craze with origins in the mists of Scottish folklore is sweeping through Britain like a proverbial fire in the heather.

While not yet in the Olympic stakes, haggis hurling, we hear, is being taken seriously by many native Scots and more surprisingly by those Sassenachs south of the border.

And now the Edinburgh based World Haggis Hurling Association is promoting the sport worldwide.

All of which should be a fine thing for the world's most southern self declared independent state, Glenfalloch on Otago Peninsula.

Laird Kevin MacMills, who recently celebrated six months of "independence", claims to be *surviving* on haggis exports.

Could it be, Glenfalloch haggis those canny Scots are hurling?

Diesel supply plagues users

DIESEL supply problems are *still continuing* to plague users and the Government's allocation system is getting some of the blame for compounding the problem.

But an expected diesel crisis was averted last week when a shipment arrived ahead of schedule.

The Government's restrictions on other forms of petroleum fuel — particularly petrol — are boosting demand for diesel in transport use, and with the demand expected to increase seasonally during the planting and harvesting scene, diesel users say the outlook is not too bright for them.

Many transport firms report they cannot stay within their Government allocations. Carless days and the weekend sales ban has meant a shift to buses for both inner city commuter traffic and for long distance travel at weekends.

Bill Simpson of the Bus and Coach and Local Body Passenger Transport Associations says there's not a bus operator in the country who's inside his allocation.

Carriers and industrial users of diesel are on 90 per cent of last year's use, but bus operators get 95 per cent.

They fought hard to get their original allocation of 90 per cent lifted back to the 100 per cent figure, but the Government compomised.

They recently returned to Energy Minister Bill Birch *seeking another lift* in their allowance. Birch turned them down, despite the fact that all of them are running anything up to 15 per cent ahead of last year's actual usage. That means up to a *fifth* over the Government's guideline.

Bus operators wanted Birch to at least legitimise the situation, otherwise they ask, what will the Government do when we run out of our allocation — put us off the road?

Simpson points up one problem common to other transport users of diesel when the allocation is based on last year's actual usage.

Because many operators, including buses, would freely supply fuel to one another at wholesale rates, some operators' consumption figures appear higher than what that operation actually consumed itself.

Oddly, the two biggest operators in the country are Government departments — Education with its school bus fleet, followed by the Railways.

Under the Government's conservation policy, 3 per cent of diesel imports are placed in a special reserve and controlled by the Energy Ministry.

Operators needing extra supplies can make application for some of this, but complaints of long delays are common.

Anything up to seven weeks in getting a final reply from the ministry have been reported to NBR. Some say the long delays are deliberate, in order to stop operators using the reserve stockpile.

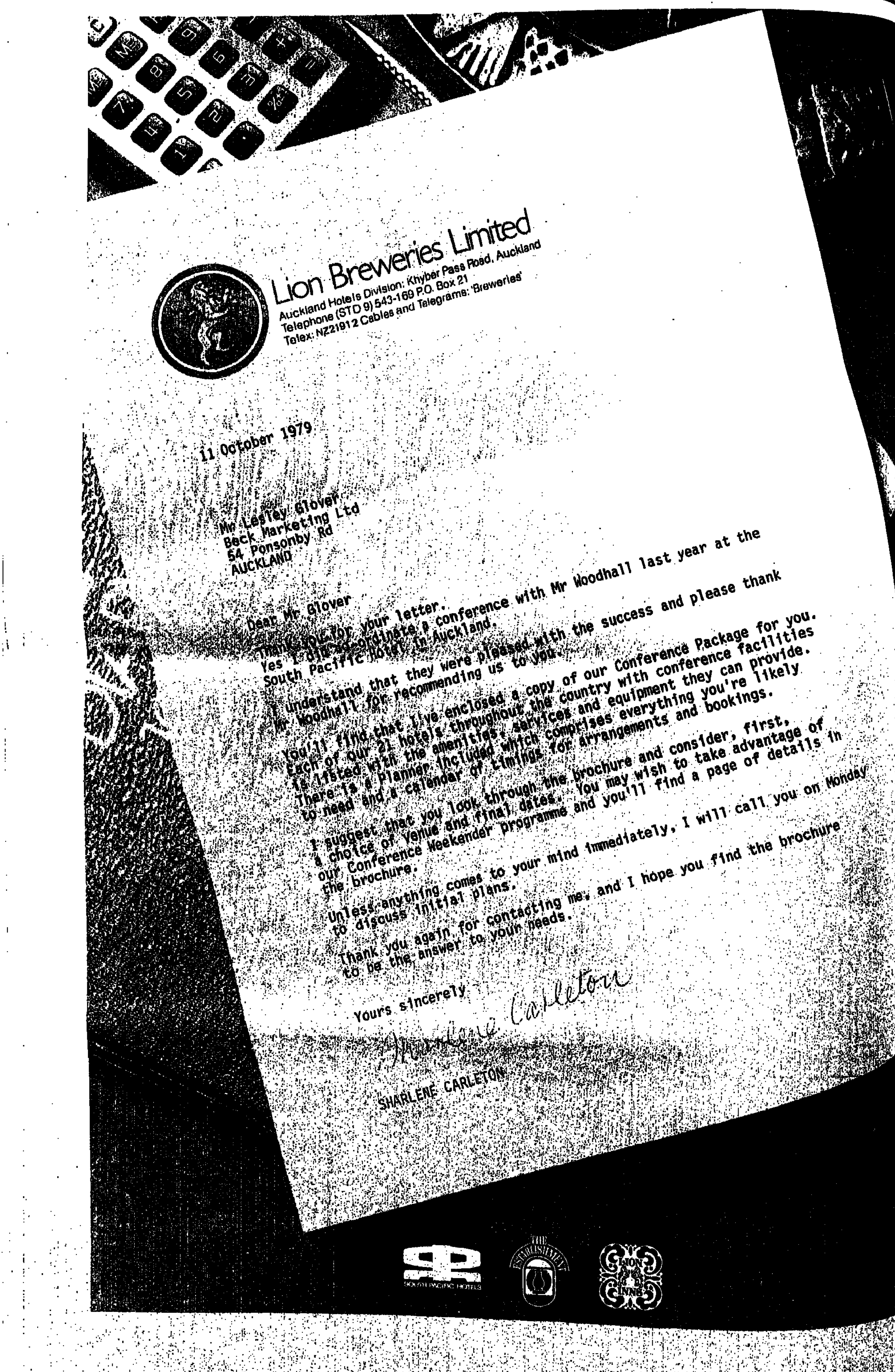
Meanwhile, the Government's private sector watchdog group, the transport committee of the Demand *Restraint Advisory Committee* is in recess and has not held a meeting for some time.

Committee members were told last month that there was no need for them to meet as frequently as earlier in the year, when regular weekly or fortnightly meeting were the norm.

Birch has made it clear that no reasonable request for more diesel coming from an essential user should be refused. And if necessary he says, the Government will break into the New Zealand Electricity Division's supplies held at oil fired power stations.

This is a last resort, though it could have happened earlier in this month had the early shipment not arrived.

Ministry projections showed around only 18 days' supply of diesel left at the middle of the month. At that level, 'stockouts' could have been ***expected, that is some suppliers would simply have none until more supplies arrived.***



Coal converts to fuel: a costly alternative

ONE-THIRD of New Zealand's liquid fuel needs each year could be met by the processing of about 10 million tonnes of lignite in Southland.

But the plant costs would be high, Southland's lignite is not cheaply recoverable and major environmental issues would be involved. And there are no lignite-to-oil plants yet operating in the world but pilot plants could start production in the United States next year.

Those facts might be spelled out next month when Energy Minister Bill Birch publishes a discussion paper on the Southland lignite resource.

More likely however, the political commitment to the utilisation of that resource will help gloss over the major problems facing its development.

But a realistic minister will only see those 4400 million tonnes in Southland, plus another 900-plus million in Central Otago, as a realisable energy source in the mid-1990s.

Before then vast planning and overseas technical advances will be needed before the lignite fields with the energy potential of six Maui gas fields can be considered for commercial production of oil and fuel substitutes.

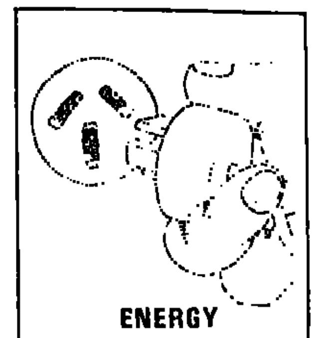
Birch is expected to set out in his paper the size and nature of the lignite resource.

Simply, the Eastern Southland field is in six major pockets.

The three in the north (Croydon, Waimumu, Mataura) have better quality lignite than their southern counterparts (Morton Mains, Waimatua, Ashers Waituna).

The northern fields are also better mining prospects, although Mataura (with more than 1100 million tonnes) has beds more than 300 metres thick which underlie the "100-year flood plain" of the Mataura River. This would cause major water flow problems for any strip-mining operation.

Waimumu and Croydon are seen by mining specialists as



"straightforward" open cast mining proposals.

The two poorest propositions for mining would be the southern beds of Ashers-Waituna (water problems, swampy land surface, low quality lignite) and Waimatua (shallow beds, meaning a wide land area would be disturbed by strip mining).

An exploration expert recently told a lignite seminar at Otago: "Unfortunately none of the deposits offers a cheap source of lignite. However the cost of mining will only be a restraining factor while cheaper sources of energy continue to be available."

Birch is unlikely to set out the full details of the costs of utilising this major resource. The costs of Southland lignite include:

- Coal liquefaction plant (United States Army capital-cost estimate $2000 million in mid-1977 for one such plant);
- Large land site (up to 500 hectares) close to feedstock and water supply;
- Cost per barrel for liquefaction up to $35 (1978 dollars) and rising;
- Loss of farm production;
- Cost of mining and land rehabilitation and restoration;
- Environmental control system costs — with one American study reporting "environmental quality control may account for 15-25 per cent of total plant costs".

Lignite is not a cheap short-cut to liquid fuel self-sufficiency.

It will require massive economic and technological investment beyond New Zealand's ability to supply.

Even today, little is known about the type of mining approach which would be taken to the resource. Until further drilling programmes are carried out, mining experts are unable to make proper estimates of mining costs.

Much more information about the chemical properties and type of lignite available is needed. Most important, experts say we "are woefully ignorant of the economics" involved in converting lignite to liquid fuels.

Only after both mining and conversion costs have been thoroughly investigated will the Government be able to rank the liquid fuels available from the brown coal deposits with other sources available, whether imported or locally produced (such as biomass).

Birch will have to be circumspect in his whole approach to the areas of cost and the state of present knowledge in New Zealand on the lignite resource.

Experts are adamant that only after careful research can present "fanciful thinking" be set aside and the real work begin.

That will be the planning for longer-term studies needed before any development can take place in Southland.

The life of the lignite deposits as a base for liquid fuels would depend on the level of self-sufficiency Government sets.

One study suggests 3000 million tonnes at a 50 per cent thermal efficiency conversion (the average of present conversion processes) to petroleum products would yield 91 years supply. But that assumes all our transport fuels would be derived from lignite once Maui is exhausted.

Birch might also use his discussion paper to spell out the role he sees lignite playing

in the total transport fuel picture.

The critical question in his paper will be the environment. Lignite mining has greater potential for confrontation than Manapouri and Clutha together.

Hundreds of Southland farmers will be affected; thousands of hectares of highly productive sheep land would be strip-mined.

Experts see German-type "moving zone" operations, with mining, land rehabilitation and farming being carried on in adjacent zones, cutting the time any first-class Southland grazing and cropping land would be out of production.

Reclaiming mined-out land in Germany is a well-established procedure. In Southland water seepage and slumping would present special problems

Although the deposits are reported to be low-sulphur in content, discharge of sulphur products would require special control.

Thermal pollution would come from water streams out of the plant, as would sour water.

Solid wastes would have to be rendered inert before being buried in mine pits.

Skin and lung cancer are believed to be caused by some coal-liquefaction products, requiring special care in plant hygiene.

Birch should be able to spell out a 15-year time plan for the first development of Southland lignite.

Already he has the first "environmental sensitivity study" commissioned from private consultants on the Southland lignite mining question.

Studies of overburden stripping and the different processed uses of brown coal are also under way.

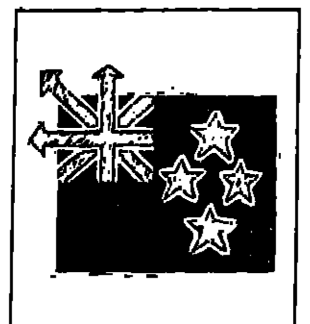
Another major question he must answer is who will develop the resource.

Sources suggest it will be almost entirely a private enterprise venture, from the mining upward.

The key decisions will be on the type of conversion process used, and the end-use of the energy form. That will decide whether Southland lignite becomes synthetic natural gas; synthetic petrol and fuel oil synthetic diesel or methanol; chemical methanol or electricity.

Whatever the decisions, lignite will be a high-cost transport fuel. Its utilisation will need an undertaking as big as any in New Zealand at present. And when Birch releases his paper, much of the technology under consideration will not even be operating as pilot plant, let alone commercial process.

Nafta talks end with tortuous communique



OVERSEAS TRADE

THE joint communique that came out of last week's NAFTA talks could only be described as the most effective public relations exercise in the tumultuous history of the agreement.

It didn't simply paper over the cracks, it effectively kept the media from falling into a cavern of policy disagreement that in reality existed between the two negotiating countries.

Despite the carefully prepared but tortuous statement, the New Zealand and Australian manufacturers were still 1200 miles apart on attitudes toward the future when the two days of talks ended.

Not to put too fine a point on it, Australia wants a full customs agreement when NAFTA expires in eight years time, and it wants it on Australia's terms. New Zealand didn't want a bar of it, at least not at this stage.

The meeting achieved a measure of agreement on a few details including:

- An agreement between forklift truck manufacturers on both sides of the Tasman which both parties are hugging themselves over and keeping the details to themselves.
- An agreement between carpet manufacturers which is only tentative because the negotiators did not have complete power to act but must report back to their federation executive committees.
- An agreement in the whiteware area which appears to be satisfactory to both parties, but again they're giving no details.

Mundane details like the above were not passed through the official communique-making machine, which had no trouble with the Australian view, a forthright statement that over the next eight years a customs union should be worked out so that it is there to replace NAFTA when that agreement expires.

But the leaders of both sides must have been relieved at how willingly the media accepted the ambiguous and conciliatory rhetoric of the official press release.

The communique outlined a difference of opinion, while Confederation of Australian Industries president Sir Max Dillon and New Zealand Manufacturers' Federation vice-president L H Stevens, who presented it at a concluding press conference, in effect urged their hearers to ignore suggestions of disagreement and concentrate on the first sentence, which said: "Objective: the creation of a larger and more effective economic unit through an extension of the principles of Nafta."

For its part in achieving the objective (and instead of a forthright declaration for customs union), the New Zealand side urged that consideration be given to placing all products which are not on Schedule A on to Schedule B and where duties on such products are applicable, to reduce them progressively to wipe-out point within the next eight years, with equitable access to each market.

As for Schedule A, everything possible to be placed on it should be placed on it forthwith, without the limitation of quantitative controls, both ways.

That "both ways" was a bit of a sly dig at the Aussies, who have always protested the unfairness of import licensing for NAFTA items. In fact New Zealand products can also be quantitatively controlled as imports into Australia by the invocation of quotas. This conference was notable for the Australians' admission that there was little difference between the two processes, in end result.

Observers give much of the credit for the progressive attitude of the New Zealand side of the delegation to Stevens's tactful and constructive chairmanship, although that is not to say things would have been much different if president Fred Turnovsky had been able to attend.

Turnovsky's views have undoubtedly already affected the New Zealand attitude in the run-up to the occasion. Increasingly internationalist in stance, Turnovsky was in Germany while the NAFTA, talks were on, exploring, as the leader of a New Zealand manufacturers' mission the likelihood of German investment in New Zealand industry.

But while the New Zealand side was determined to be constructive about the talks, it was also obvious that the Australian side was concentrating on avoiding abrasion too. No one wanted to see a rerun of the rough 1978 session in Canberra, which led to much of the recent public pondering of whether NAFTA was a dying if not dead, duck.

The presence of observers from other organisations was an innovation. There have been mutterings that Nafta after all concerned more than manufacturers, and in the somewhat more relaxed regime of still-new director-general Ian Douglas, the federation felt sufficiently confident to invite observers from the Chambers of Commerce, Federated Farmers, and the Retailers' Federation.

At this early stage, the observers feel honoured enough to be chary of being thought rude by sticking their oar into discussions. But there were a few words from Federated Farmers president, Alan Wright, on invitation — naturally enough, in view of the vexed question of New Zealand farm products' possible effect on Australian farmers.

Wright said that up until now his organisation couldn't have comparable Nafta talks with their Australian counterparts, because th[illegible] been no Australian e[illegible] of Federated Farmers [illegible] such a body had been [illegible] and at least there [illegible] mechanism for holding [illegible] industry discussions.

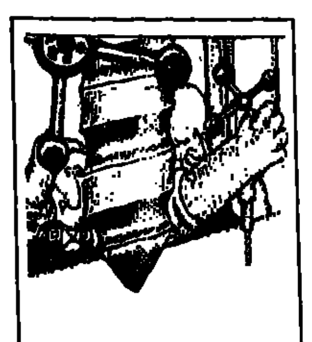
The Australian side [illegible] reminding the meeting [illegible] they also had Asian neig[illegible] to think about — but [illegible] By and large it was [illegible] accepted by both sides [illegible] "bigger block of tr[illegible] status was an outward [illegible] thing anyway, with [illegible] tent of expanding the [illegible] bined countries' total [illegible] with other partners as [illegible] within their own joint [illegible]

However, some [illegible] countries do not see it [illegible] way.

Their concern would [illegible] been, to detect any [illegible] ments which could [illegible] their own market acc[illegible] given present Third [illegible] sensitivities and [illegible] initiatives, to rush [illegible] diplomatic and [illegible] campaigns to achieve [illegible] — or at least symp[illegible]

Commission tries to unravel textile tangle

by Warren Berryman



THE MANUFACTURERS

FORTY years of hothouse protection through import licensing and high tariff barriers have left the textile industry with all the earmarks of overprotection.

It also suffers from inefficiency, gross underutilisation of capital and plant, horizontal proliferation of units, high consumer prices, an inability to compete in world markets and dependence on Government support.

The textile industry is the sort of industry economists have been urging Government to restructure by allowing market forces to eliminate sectors of that industry where this country has no comparitive advantage allowing labour and capital to flow into the remaining areas of strong comparative advantage.

The Industries Development Commission has attempted to tackle the problems in a massive nine volume plan for the textile industry.

Its plan is now being considered by Government and is likely to emerge as a bellwether for future economic restructuring.

The textile industry may be a test case. If the IDC's plans for restructuring of that industry prove economically sound, and more important politically acceptable, a similar restructuring of other highly protected industries might follow.

The IDC took a free trade stance. It advocated liberalisation of protectionist measures, such as import licencing and a reliance on market forces, to sort out: the efficient from the inefficient; areas of comparative advantage from those areas where we have no such advantage; areas where we should encourage production for the home market and export; and areas where we should import rather than burden industry and consumers with the high cost of continued protection.

In its role as economic analyst, the IDC's hard headed examination paralleled that of the Australian Industry Assistance Commission which did a similar study on its own textile industry.

But the IDC differed markedly from the IAC in its total approach.

The IAC, after looking at its textile industry concluded that the high cost of protection was not justified and that Australia might be better to import its textiles and concentrate on other areas where it did have a comparative advantage.

The IAC produced a good analysis from the economist's point of view. But it has been almost totally ineffective as the results were not politically acceptable.

IAC's mistakes by drawing industry into their consultations, by tempering hard economic theory with political realism.

The IAC adopted a confrontation stance vis a vis the Australian textile industry which became a confrontation with the Australian Government.

In contrast, the IDC adopted a consensus style remaining in close contact with industry and Government during the two years in which the study was written.

As a result the IDC's report can best be seen in two parts: the desirable as set out in the strict economic analysis; and the politically possible—as set out in their recommendations.

The recommendations establish a movement toward a sorting out process wherein some sectors of the industry will be hurt and some people will loose their jobs.

But the pace of this movement is sufficiently slow to allow industry time to adjust, cushioned by government assistance along the way.

The IDC plan is designed to encourage the transfer of resources into identified growth areas. These are users of wool technology, knitters, synthetic yarn, and clothing. They will in turn improve efficiency, enable fewer, larger units to finance new technology, purge production mixes of items for which the market is too small to achieve economies of scale, and increase the domestic content of textiles.

But, as the IDC report makes clear, analysis of this industry is possible only when one directs attention to each of its component sectors.

The wholesaling and retailing sectors argue against protection insofar as it pushes up prices and limits consumer choice.

The clothing manufacturing sector might want protection for itself against competing imports but stand against protection for local cloth manufacturers which push up costs for its inputs and reduce its price competitiveness.

Reaction from the industry to the IDC report has been as varied.

One Auckland clothing manufacturer said he welcomed the IDC's recommendations wholeheartedly. Liberalisation of import licencing would mean that he would import cloth at cheaper prices and of greater variety than was available locally.

This, he said, would improve his export competitiveness. He added that in return for the advantage of cheaper inputs he was willing to put up with a higher volume of imported clothing.

Another Auckland manufacturer said he saw this same liberalisation of import licensing as the death of his business.

The IDC's starting points were:

- An adverse balance of payments and the need to increase textile exports.
- The unco-ordinated textile industry's nature and the need to sort out sectional conflicts so opening opportunities for rational and integrated development; and
- The need to examine the nature of protectionism and to discourage marginal and inefficient manufacturing and foster areas of national benefit.

The report authors said they were interested in the long-term growth of the industry. And while they were aware of short-term exigencies such as unemployment, the temptation to adopt short-term solutions should be resisted in persuit of the long-term goal of an industry that could contribute to this country's export earnings.

The IDC acknowledged that the implimentation of its plan would lead to some unemployment.

But it said: "The answer to long and medium term employment problems will not be found by endeavouring to lock employees into their current employment against the commercial requirements of the industries concerned

Nor will it be found by preserving at ever increasing cost, industries which are largely a legacy of past assistance policies based on need rather than justification.

"The current level of unemployment is reflected in textiles by a decrease of almost 8000 employees between 1974 and 1978. And while the emphasis on employment in present circumstances is understandable, the commission has endeavoured to produce a development plan not distorted by the short-term exigencies of the employment problem," the report said

"An economy which over five years spends \$1000 million more on imports than it earns in exports, and then spends \$3500 million on invisables and continues to operate at an annual deficit exceeding \$500 million, needs to give some attention to the structural imbalance which has been one of the contributory causes," the report said.

The IDC followed closely in the footsteps of its Australian counterpart; the IAC, in outlining the cost to the

Continued on page 11

Textile protection has its costs

Continued from page 9

consumer and the community at large of protecting the textile industry against imports.

"There are obvious similarities between the Australian and New Zealand textile industries: the close interdependence of each industry; the labour intensive nature in both countries; the particular effects of recession in non-metropolitan areas; the unused plant capacity; and the dependence on the other sectors of the clothing sector. . " the IDC report said.

The IAC calculated the annual cost of protection for the Australian textile industry at A$4700 per employee in clothing, and A$3800 per employee in other textiles compared with the average earnings in these industries of A$6500 per employee in 1975-6.

The IAC concluded that protection to generate this sort of employment was costly and inflationary while reducing competitive pressures in the industry for enterprise, innovation and technical efficiency.

Assistance to the Australian textile industry is four times the average for Australian industry. Australian textile manufacturers prices are about 80 per cent higher than FOB prices for Asian imports.

The IDC said that working on similar assumptions to the IAC, the cost to the New Zealand community of protecting jobs in the local clothing industry would be annually about $6800 per person.

The IDC and IAC differed in the conclusions drawn from these costs of protecting the *textile industries.*

The IDC concluded that the New Zealand clothing industry was viable and could make a significant contribution to exports provided Government and the industry were prepared to bite the bullet, get rid of the dead wood in the industry and concentrate on the long-term winners.

Import licensing, originally brought in 40 years ago to conserve overseas funds, has almost totally shielded the local textile industry from competing imports.

Over the period only 2 per cent of apparel has been imported each year, the report said.

"The combination of import licensing with the tariff has in most circumstances resulted in a double impediment, delay and interference to commercial judgements," the report said.

"The licensing system prevents the custom tariff from performing a major economic function which is to determine at what level the country's internal costs become over-inflated and thus permits competitive goods from New Zealand's trading partners to enter."

The report said the manufacturers' home base of a springboard to future exports concept "could be over-emphasized. There are important pockets of industry which survive substantially on exports.

"These areas should be fostered and the need for a strong home base not allowed to cloud the vision of a growing outward-looking economy," the report said.

It emphasised the benefits of liberalising import policies. Competitive imports would pressure inefficient producers to become efficient.

"Imports will be an indispensible part of the process of achieving greater efficiency through market forces," the report said.

"Additional imports will be part of the price paid for access to foreign markets for New Zealand exports.

"More competition with imported goods will assist to dismantle cost-plus elements in pricing and overcome the inflexibility of national delivered price where this is a significant element.

"Imports will make for keener and more economic distribution practices."

Two unwanted effects of this high level of protection are the horizontal proliferation of production units combined with widespread under-utilisation of existing plant.

For example the report said, 75 per cent of the production of men's and boy's outwear is coming from companies operating at only 23.75 per cent capacity based on a 168 hour week.

Of the 11,966 people employed by the industry in the non-metropolitan areas 72 per cent were females.

By law, women are prohibited from working in factories between 10 pm and 7 am.

The IDC recommended that this bar on female employment be removed to make the industry more competitive both internationally and in the home market.

The textile industry ranks third in manufactured exports behind aluminium and pulp and paper.

But this export performance reflects neither efficiency nor price competitiveness at home or in world markets. Over 80 per cent of those exports were to one market—Australia free of the quotas imposed on other country's exports.

The Australian clothing industry was highly protected from all imports except those from New Zealand.

Protection pushed prices in Australia well above world levels.

Privileged access to this cosy market led to rapid growth of New Zealand exports and proliferation of manufacturing units during the 1975-7 period.

But the Australian market was totally artificial—isolated from the realities of world trade.

Then in 1977, the bubble burst.

The Australians, in the interest of their own consumers and overseas trading partners, brought New Zealand under their quota system and the clothing firms in this country set up to service that artificial market started to go out of business and lay off workers.

The export boom in clothing ended when the Australians curtailed New Zealand's privileged access to their hothouse market. Exports of clothing are still below the 1976-7 level.

New Zealand negotiated a special arrangement with the Australians for limited access but had to grant Australian clothing firms similar access to our market in return.

Since then the textile and garment industry here has been complaining about competition from "cheap" Australian imports in spite of the fact that the Australians pay their workers at least 25 per cent more than is paid here.

The IDC recommended that the favoured position afforded Australian exporters in this market be continued only so long as there is a quid pro quo for New Zealand exporters. Otherwise imports to meet a free market demand should be met from other sources.

The textile industry employs 13.3 per cent of the manufacturing work force or 4.3 per cent of the total national employment, the report said.

Clothing manufacture employed 20,307 people out of the 37,847 employed by the textile industry as a whole.

The clothing industry depends heavily on imported yarns and fabrics.

But clothing manufacturers have been disadvantaged in that its cost of imports are pushed up to protect the wool milling industry. This protection of the wool milling industry has not been effective, the report pointed out.

Only 6.55 per cent of the wool clip is processed in New Zealand and 75 per cent of this was used by the carpet industry.

Drawing on a Development Finance Corporation paper on wool milling the IDC report said "in national terms the woollen milling industry is not large, producing only 1 per cent of the total value of production and employing only 1.8 per cent of the manufacturing labour force.

"When one considers the influence that wool has on New Zealand's day to day existence, the insignificance is little short of remarkable.

"While wool represents some 4.5 per cent of GNP, the woollen milling industry contributes only 0.15 per cent."

The IDC pointed out that the *woollen milling industry has sought and been granted high levels of protection from competing imports.*

But this protection did not have the desired effect of increasing local production of woven woollen piece goods.

In fact woollen woven piece goods on the local market have declined dramatically since import licensing was introduced.

The IDC report added that it was also unquestionable that the consumer paid heavily for this protection in limited choice and price.

The IDC came down heavily on protection afforded under the substitutability clause. Under this clause, import restrictions have been placed on one product when it was felt that its entry to this market might displace a local product under a different tariff heading. For example, belts and braces are both trouser supports and a belt might be construed to substitute for a set of braces.

The IDC argued that protective policies introduced over the past 40 years in response to claims based on substitutability arguments continue to have a "distorting effect on the whole textile industry".

"Because in the commission's view most of those policies have been costly to users, ineffectual for the purposes for which they were designed, and in general, unjustifiable against any reasonable canons of logical development . . ."

The substitutability clause has been used to protect the wool milling industry from imports of woven synthetics used in outerwear.

The IDC recommended that the clause be dropped and import licence restrictions on non-wool fabrics be removed—a policy that would benefit the fashion and garment industry by availing them of cheaper and more varied inputs.

Following its stern criticism of the years of Government protectionist handouts to the textile industry at the consumer's expense, the IDC turned benign when it came time to make its recommendations and offer a few handouts of its own.

There was to be a lot of sugar coating to cover the bitter pill of restructuring—like a $5 million Government grant to facilitate the rationalisation of the woollen milling industry, a suggestion that manufacturers be allowed to depreciate their plant for tax purposes by 200 per cent rather than the customary 100 per cent, a removal of sales tax on textile and garment making machinery, and a bounty on synthetic yarn and woven woollen piece goods to reduce the costs of domestic inputs.

The package of duty reductions and bounties recommended by the IDC is designed to help the industry through the restructuring phase while maintaining pressure for change through competition from an ever increasing liberalisation of imports.

The report emphasised the distinction between justifiable levels of protection and "needed" levels of protection. *This is a marked divergence from Government's past policy of total protection for an article made in this country* no matter how much more expensive it was than a competing import.

The level of justifiable duty recommended by the IDC for goods coming from countries with similar cost structures to New Zealand such as Australia, Europe, North America and Japan was as follows:

- 15 per cent on all materials;
- Plus 50 per cent on all elements of factory selling price (including profit but not distribution).
- And on top of this an arbitrary plus 10 per cent ad valorum duty as an extra margin for the New Zealand manufacturer.

Despite the IDC's comments about the negative effects of protection and consumer interests, the duty levels they recommended are hothouse protectionism in the extreme, especially when one considers that the real wages paid to workers in those countries mentioned above are far higher than those paid here.

The report—together with its recommendations is economics with kid gloves on.

The economic facts documented in the IDC report—and in the 38 other enquiries into protectionism that preceeded it—show the high cost to community and consumer on maintaining jobs in this industry.

Had the IDC concerned itself with strict economics, politics aside, it is likely that these facts would have led to conclusions similar to the Australian IAC's—that continued hothouse protectionism for an industry that had shown itself to be internationally uncompetitive was not only unjustified but an inflationary drag on the economy as a whole.

McKenzies enters a state of crisis

by Karl duFresne

McKENZIES Ltd, one of New Zealand's oldest and most respected retail chains, is in a state of crisis.

It is now four months since approval was first sought for a takeover of the company by the Auckland-based conglomerate L. D. Nathan and Co, and several more weeks will pass before the parties know whether the takeover can proceed.

In the meantime, McKenzies — who accepted the Nathans bid — have suffered severely.

Uncertainty over the future has punctured staff morale and impaired efficiency; four key executives have quit and the company has been unable to replace them.

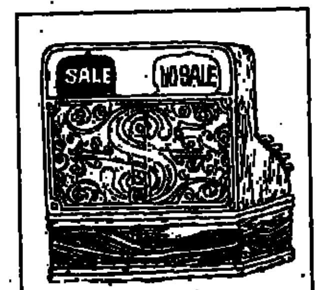
"It's almost impossible to carry on," a top-level McKenzies source said last week.

The company's predicament is reflected in its half-yearly results, announced the other day.

Contrary to directors' expectations, the retail division recorded a trading loss of $360,000, which the board largely blames on the effects of the protracted delay in vetting the takeover.

Now an ominous question-mark has appeared over the takeover itself. Nathans are concerned that the deal may no longer be the attractive proposition it seemed when they made their offer — an impression reinforced by McKenzies' latest results, which were keenly awaited by the Auckland group.

Nathans sources have intimated that the company



WINDOW
ON RETAILING

might now revise the terms of its offer, or even withdraw it entirely when it lapses at the end of November.

"If this rigmarole goes on too long," a Nathans executive said recently, "there may be no company left to take over."

By "rigmarole" he meant the procedure laid down in the Commerce Act for the authorisation of takeovers — a procedure which is now being criticised, in the light of the delay faced by Nathans and McKenzies, as too cumbersome.

Under the Act, all takeovers must be referred to the Examiner of Commercial Practices. The examiner is empowered to approve takeovers but not to disallow them; those he considers should not be allowed must be referred to the Commerce Commission.

In this case the examiner, Alan Monaghan, has taken the unprecedented step of referring the takeover to the commission with a recommendation that it be prohibited because it "involves the elimination of competition between two companies which fulfil an important and unique role in retailing". (The other company is Woolworths, which Nathans acquired late last year.)

What has had both Nathans and McKenzies chafing with impatience is the time taken by Monaghan to report to the commission — a delay which will be compounded by the commission's own public hearing on the takeover, scheduled to start on November 14.

In an angry statement accompanying their half-yearly figures, McKenzies directors said: "We cannot believe that a 'free enterprise' Government would intend to place in the hands of a civil servant the authority, based solely on his own opinions, to delay for months a normal business transaction."

Even if changes are made to the Commerce Act to streamline takeover procedures, they will come too late to help McKenzies.

The outlook for the 60-year-old company is now decidedly gloomy: if the takeover is allowed to go ahead, it may be on terms less favourable than those originally offered by Nathans. And if the commission witholds consent, the company will just have to "pick up the pieces as best we can" to quote a McKenzies source. This would inevitably involve closures of some of the company's less profitable outlets.

McKenzies had been performing unspectacularly even before the present slowdown added to their problems. In fact it was a director of Rangatira Ltd, a private investment company set up by Sir John McKenzie and holder of the controlling interest in the retail chain, who suggested to Nathans that McKenzies might respond favourably to a takeover bid.

NBR understands that Nathans intend, if the takeover is approved, to close 10 McKenzies branches — three in Auckland, one each in Wellington, Christchurch and Dunedin and the rest in the provinces. The company's Wellington head office and Miramar bulk store would also be shut down.

But Nathans' rationalisation strategy goes further than that.

McKenzies' five supermarkets would become Woolworths outlets and all Woolworths variety stores would trade under the name of McKenzies.

This would create two complementary but quite distinct chains: Woolworths supermarkets and McKenzies variety stores.

Consideration of these factors, which point to larger scale staff redundancies as well as the elimination of competition in the price-conscious sector of the retail trade, clearly influenced Monaghan in his report to the commission.

The irony now is that McKenzies stores may go out of existence in many locations, leaving the field exclusively to Woolworths, even if the commission vetoes the takeover.

NBR BUSINESS WEEK

Spring brings bumper crop of state fungus

by Peter V O'Brien

STATE fungus sprouted again in the spring sunshine last week. Several specimens were available hanging from the regular revival of regulatory controls to administrative delays, and a case of one agency offending the spirit of another's activities.

On the principle that the last shall be first, we can look at the advertising campaign for the Government stock loan which closed on Friday. The television clips were a fine example of persuading people to part with their money.

After the usual exhortations to invest in the loan, the advertisement closed with the statement "this loan is only open for a short time". Flashing lights told the viewer "closes Friday" and "do it now".

The impression was that you had to be quick or you may miss out, a proclamation which is better suited to a "big banger" lottery than to the fundraising activities of the State.

There is no doubt that a Government cash loan carries top level security and handsome interest rates — at the various terms, although below those offered in the private sector.

The Securities Commission is examining financial advertising, and asking for opinions on whether regulations should be introduced to control these activities, and if so how they should be drafted.

While the commission moves to its goal another arm of the State produces financial advertising designed to hurry the public into investment. What would happen if a private sector finance company took television time to tell people "closes Friday" and "do it now"?

The company would be denounced for its wicked attempt to panic the widows and orphans into investment.

Do different principles apply to the State because it offers a security backed by the total resources of the country?

Case two was the row over the Examiner of Commercial Practices' "delay" in producing a report for the Commerce Commission on L D Nathan's takeover offer for the McKenzies retail chain.

In the middle of the wordplay over that issue, our irrepressible Trade and Industry Minister Lance Adams-Schneider issued another of his innumerable press statements which flow into newspaper offices in a perpetual paper torrent.

Lance told us that "criticism from the directors of McKenzies concerning delays in finalising the company's takeover by L D Nathan Ltd is misleading". He said the Examiner had 25 working days in which to consider proposals in the terms of the Commerce Act and that the parties were advised within that time of the Examiner's refusal to consent to the merger.

The Examiner's report was made to the commission on October 5 and the intervening period "was taken up by various procedures specified in the Commerce Act, and by a detailed investigation of all aspects of the merger throughout New Zealand".

The Examiner and his staff were required at the same time to investigate 30 other merger and takeover proposals, all of which were completed within the 25 working days' period.

Lance concluded his remarks with: "In my view it is inevitable that when major issues such as this takeover are to be the subject of a public inquiry, time must be allowed for thorough investigation, and the other consultation and conciliation procedures provided for in the Commerce Act."

That raises two points which Lance could have explained to his eager public. The Examiner can dispose of 30 proposals in a relatively short time, but preparing a report to the commission takes much longer, including "a detailed investigation".

Does this mean that approvals require less "detailed investigation", and if so, why?

The answer probably lies in the fact that the Examiner's report is subjected to close cross-examination at a hearing, unlike an approval. No one wants to prepare a report which the lawyers of a public authority can rip.

The second point is that detailed investigation needs the time of the "staff available for this purpose", and the McKenzies-Nathan case shows that there are insufficient "staff available for the purpose" and for the other work of the Examiner's office.

That puts the issue back in Lance's court, along with other industrial and commercial matters which are delayed because of insufficient experienced staff to carry out complex work.

The other two matters which surfaced last week related to the eternal vigilance maintained over the fruits of New Zealand's soil.

The Potato Board, a body of fundamental importance in democracy's mixed economy, informed the populace through the public notices columns of daily newspapers that persons intending to plant more than a small area of spuds this year must advise the board's secretary of their intention and pay a fee. Failure to heed this warning probably leads to the marshalling of State power against the spud grower.

The kiwifruit controllers got into a similar act.

Anyone wanting a licence to export the green gold is advised to apply to the appropriate board's secretary. Grow kiwifruit you may, but export the product overseas without the possession of the State's piece of paper, you may not.

If anyone is currently working on a scheme to make a fortune this summer by catching and exporting blowflies for gain after finding a commercial use for the beasties, watch your step.

You will see the introduction of the Blowfly Trapping and Export Control Regulations 1980, in the interests of orderly marketing and New Zealand's economic stability.

Analysing annual accounts

by Peter V O'Brien

COOKS New Zealand Wine Co Ltd presented an interesting annual report this year, but the directors glossed over a few financial matters which could do with elaboration.

The company's profit increased from 1978's $463,994 to $702,385, after another year of a nil tax liability.

The 51.5 per cent profit lift was achieved on sales which were 55 per cent higher at $4,668,043. The difference between the two figures comes from a 56 per cent increase in the expenses of earning those sales.

A graphic display of "disposition of sales income" shows that the largest proportion of expenses went on "grapes, vineyards and wine processing costs", which took 29 per cent of the sales dollar, compared with 22 per cent in 1978.

The graph, perhaps surprisingly, also reveals a drop in the "packaging costs, including bottles, cartons and corks". In recent years this item has been a growing problem for winemakers, as the rise in such costs ran ahead of other expenses.

The company's information on its sales, profitability and expenses, is satisfactory, but it could have given more space to explaining changes in balance sheet entries.

A substantial alteration to cash liquidity receives no textual comment, although it probably results from the improved profitability.

At June 30, 1978 Cooks had a bank overdraft of $244,933, and cash at bank of $2270, for a net bank liability of $242,663.

This year the overdraft has been removed and the company had a credit of $115,657. That is a turnround of $358,320.

A consolidated statement of source and application of funds shows how the shift occurred, but a reference in the chairman's review or the directors' report would have explained the movement for those shareholders (and others) who have an interest in the company, but lack detailed understanding of the terminology used in company accounts.

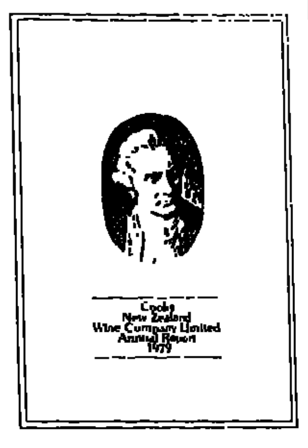
The point is admittedly minor, particularly as the change was an improvement, rather than a deterioration. It is time to worry when companies are silent in the latter case.

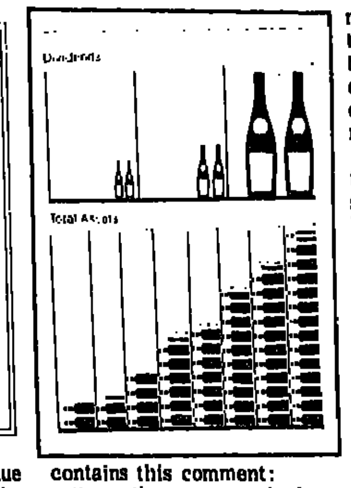
The figures under "stock" are more important. At balance date Cooks had $2,355,538 worth of stock on hand, compared with $2,180,470 in 1978, both figures assessed by traditional conservative valuation methods.

The breakdown — with 1978 figures in brackets — was: maturing wine, $1,760,641 ($1,537,004); packaging, $266,031 ($204,714); bottled wine stock $328,866 ($438,752). The company's total wine stocks therefore were $2,089,507, compared with $1,975,756 a year earlier.

That a small movement in an industry which reports increasing demand for its products. When price inflation is taken into account the fall in stock value is even greater.

Wine in stock at June represents part of the company's potential sales in the 1979-80 year, due to the maturing process, and to the availability of bottled stock for onselling to the trade.





The maturing wine value was up 15 per cent but the bottled stock was down 25 per cent.

The volume of stock, as opposed to its value, may be sufficient to maintain company sales this financial year, but it may also mean that pressure will come on either available supplies or on prices to keep a sales figure growth.

The chairman's review contains this comment:

". . . the company had an extremely gratifying year in 1978-79 and it has budgeted for a further increase in sales volume in 1979-80. The upward sales trend which occurred in the last financial year has followed through into the current year and it is the directors' opinion that budgeted sales will continue to be achieved as long as there is no unforeseen deterioration in the New Zealand economy. In the current year, greater emphasis will be given to the establishment of export markets".

The statement indicates that the stock position is considered sound, but the figures in the balance sheet, in the absence of further explanation, raise a question.

A short note on stock values and volumes would round out the report.

It would also be interesting to know the extent of Cooks' tax losses. A note to the accounts says the company has accumulated tax losses from previous years which have been carried forward.

"The taxation losses are sufficient to ensure the company will not need to pay taxation within the foreseeable future." The shareholders will be relieved to read that statement.

The actual figure available would assist disclosure and understanding of the company's financial position.

The general improvement in Cook's financial structure, and the rest of an informative report, offset these criticisms. The substantial lift in shareholders' equity is particularly pleasing.

The relationship between shareholders funds and total assets was 36 per cent in 1978, a percentage which is near the lower limit of safety.

The figure rose to 47.3 per cent last financial year, after the profit rise, the conversion of convertible debentures to shares, and only a modest rise in other liabilities.

Net asset backing was $1.77 for each $1 share, as against $1.63 in the previous year, so the changes to reserves more than outweighed the conversion of the debentures.

The stronger balance sheet should allow Cooks to continue its development with less strain than it may have felt in recent years, given the time element in successful vineyard and wine processing development.

Exchange Rates

As at October 12, 1979, $1NZ is worth:—

Australia	.8828
Britain	.4549
Canada	1.1523
Fiji	.8194
Japan	227.03
West Germany	1.7464
USA	.9769
Austria	12.52
Belgium	28.20
China	1.4786
Denmark	5.0937
France	4.0988
Greece	36.16
Hong Kong	4.8371
India	8.0201
Italy	805.86
Malaysia	2.1092
Netherlands	1.9359
New Caledonia and Tahiti	74.37
Norway	4.8301
Pakistan	9.5790
Papua-New Guinea	On application
Portugal	48.38
Singapore	2.1065
South Africa	.8028
Spain	63.98
Sri Lanka	On application
Sweden	4.1119
Switzerland	1.6034
Western Samoa	.8853

Selling rates supplied by CBA Bank.

Key Indicators

		Current Period	Previous Year	Percent Change
Consumers Price Index — all groups base Dec 1977 - 1000	Sept 1979 Qtr	1238	1073	15.00
Building Permits Issued	June 1979	$ 82.3m	$ 81.7m	.73
	June 1979 Yr	$1141.8m	$1119.0m	2.00
Official Overseas Reserves	July 1979	$ 918.3m	$ 931.0m	—1.00
Registered Unemployed - incl those on special work schemes	Sept 1979	50,059	49,933	1.4
NZUC Share Price Index	Oct 18, 1979	363.02	321.41	12.00
Reserve Bank Share Price Index	Oct 17, 1979	1552	1360	14.00

Dwelling data: what comes down must go up

by Peter V O'Brien

THE number of dwellings being built is still going down and their cost is still going up.

The latest building statistics from the Department of Statistics show that permits for 13,237 new houses and 4810 new flats were issued in the year to June, 1979, compared with 13,660 and 6081 respectively in 1978.

The 13,327 new housing permits were valued at $389 million, compared with $366.4 million for 1978's 13,660. The average cost in 1978 and 1979 was respectively $26,822 and $29,387, an annual increase of 9.56 per cent.

The average price movement is below the rate of inflation over the period, which may console those paying for the dwellings, but another rise can be expected this year, following the announcement that prices are likely to rise $2000 in the near future.

The permits issued for housing are only a rough guide to what is happening in the industry, because some permits fail to translate into finished dwellings. The Department also provides information on the dwellings started and completed in the appropriate statistical period.

The industry started 16,800 "new dwelling units" in 1978-79, compared with 18,800 in the previous year, a decline of 10.6 per cent. The number completed was 18,200 as against 23,200 in 1977-78. Completions were therefore 21.5 per cent down on 1978.

These figures are a massive drop on the 30,000 odd dwellings which appeared in the statistics about three years ago.

The downturn was less severe in the department's *"other buildings" category*, which cover buildings ranging from hospitals to farm buildings.

Permits were issued for 9165 new "other buildings" last year compared with 8419 in 1978. The total values were respectively $360.1 million and $368.6 million.

Averaging those figures is misleading, due to the different scales applicable to individual buildings in each category. For example, permits were issued for 107 new "hotels, motels etc" in the 12 months to June, 1979, compared with 95 in the previous year, but the value dropped from $11.7 million to $7.3 million.

More buildings were constructed, but obviously the individual units were smaller.

The effect of constraints on the Government's capital works programme can be seen in the figures for buildings which can loosely be classified as "public sector"—permits for the construction of education buildings totalled 304, worth $36.1 million.

In 1978 the number was 551 and the value reached $43.6 million. The number fell 44.8 per cent, and the value came back 17.2 per cent.

The value of permits for hospitals and nursing homes was more than halved, moving from $44.2 million to $20.3 million, although the number was reduced by only one, to 33.

Most of those permits were probably issued for "ancillary buildings", rather than totally new complexes. The restrictions on spending in the health area may explain at least part of the substantial decline in value.

The improvement in farmers' incomes last year is one explanation for a sizeable lift in the farm buildings category.

The department says that 6007 permits were issued for farm buildings, valued at $32.2 million. The corresponding figures in 1978 were 4986 and $27.0 million.

The increase would include construction which was deferred in the tighter rural conditions ruling in 1977 and 1978, so the surge may not be maintained in the period through to June, 1980.

The pattern of capital investment in industry is harder to assess. Permits for "factories, powerhouses etc." were 6.4 per cent higher, at 1021, but the value fell 9.1 per cent to $69.1 million.

Only a tentative conclusion can be drawn from that data. There may have been greater willingness in industry to invest in buildings, but the units were smaller. There is no evidence to suggest that industry embarked on a substantial increase in capital investment.

The department's news release draws attention to the growing trend to alter existing dwellings, rather than build new units.

This phenomenon has received comment from various organisations and people associated with the building industry.

It is connected to the increasing cost of transport, both public and private, and a worldwide trend towards inner city living, with the associated benefits of being close to workplace and leisure time facilities.

It also costs less to renovate or alter an old dwelling than to buy a new unit.

The department says: "A feature of the dwelling permits issued for the year ended June, 1979, was the 11.8 per cent increase in number and [illegible] per cent increase in value of permits for alterations and additions to dwellings compared with the June [illegible] year."

City Realties continues to thrive

by Peter V O'Brien

INVESTOR INSIGHT

CITY Realties Ltd, the Brierley Investments property and retail offshoot, has the distinction, and possibly the "honour" of selling on the sharemarket at 14.35 times the latest earning rate per share.

That is an extraordinary multiple, but it shows the advantage of having shares denominated in 10 cents units.

Last year the company earned $92,491 on an equity accounting basis. An amount of $500,000 in convertible debenture stock has been converted to shares since balance date, making the issued capital 7,027,586 shares of 10 cents each.

The interest of $45,000 paid on convertible debentures can be added back to profit, raising the latter to $137,491.

The earning rate per share on historical earnings is, therefore, 1.95 cents.

At a price of 28 cents a share last week, the price-earnings multiple is 14.35.

In terms of traditional investment analysis the figure would be considered too high, because it discounts many years of future growth, but the company's rapid profit development in the latest year, plus a policy of increasing the dividend payment progressively (probably to 18 per cent this financial year compared with 16 per cent in 1978-79), and the 10 cents unit, results in the unusual figure.

The group is expecting to do well from rent reviews this year, according to the remarks of chairman Selwyn Cushing at last week's annual meeting. Cushing considered that profits, on the basis of current trading, would be ahead of last year. It was unclear whether the first three months' figures, projected to a full year, take account of the rent review, but the annual budget can be expected to include the review.

The company bought a remaining half share in the Wellington property Castrol House since balance date, and is negotiating at present for the purchase of another property in the Wellington area.

The group has retailing interests in Hastings, through Westerman and Co, a retail drapery store.

Cushing told the annual meeting that the subsidiary "continues to thrive".

He said sales and profit were ahead of budget for the first three months of this year and that Westerman should again make a "handsome contribution" to group profit.

Apart from retailing, a "portfolio" of properties, and other projects held for trading (resale), City Realties has developed the Flaxmere shopping centre in Hastings, and last year took over the Christchurch company, E Reece Ltd, which is also engaged in the property business.

In the annual report Cushing describes this as a "successful takeover". That might be gilding things a little, since E Reece was 40 per cent owned by a Brierley subsidiary, through a tortuous network of other Brierley subsidiaries involving three companies.

Brierley has the largest shareholding in City Realties, so an acrimonious takeover battle would have been effectively disposed of before anyone thought of starting it.

The association with the National Insurance Co Ltd, another substantial shareholder, gives City Realties additional clout, apart from the Brierley connection.

The current year should provide the company with another profit lift, based on the higher income from rent reviews, and the addition of new properties to the portfolio.

The retail side of the business might get tighter as the year progresses and the widely forecast squeeze on liquidity and disposable incomes takes effect in the New Year.

At this point Westerman is said to be doing well, so present profitability may be sufficient to see the subsidiary over difficulties which might occur in the second half of the June, 1980 year.

The outlook, and recent profit history, obviously pleased the market, which is unconcerned at a 14.35 earnings multiple.

The figure is reminiscent of the similar multiples which were seen on the London Stock Exchange for property companies before some of those peculiarly constructed empires (in terms of financial imbalance) fell down a few years ago.

City Realties' financial relationships are more soundly based. At June 30 the shareholders funds were 41 per cent of total assets, compared with 29.2 per cent in the previous year.

The relationship should have improved since balance date, after the conversion of the debentures.

High financial leverage is a major problem in property companies, particularly when

SELWYN CUSHINGS ... review success.

the smart boys think they [illegible] regularly revalue properties on the basis of a so called "market" value, and [illegible] build up borrowed [illegible] through increasing the mortgages and other loans.

The crunch comes when properties cannot be [illegible], interest and-or principal repayments have to be [illegible] and there is limited cash [illegible] to prop up the business.

At that point the [illegible] edifice crumbles, a point known by some New Zealanders who are now enjoying warmer climates [illegible] despair of their creditors.

Cushing was adamant [illegible] week that City Realties [illegible] continue to adopt a [illegible] servative approach [illegible] property valuations, except [illegible] year when it plans to [illegible] examine values after [illegible] reviews.

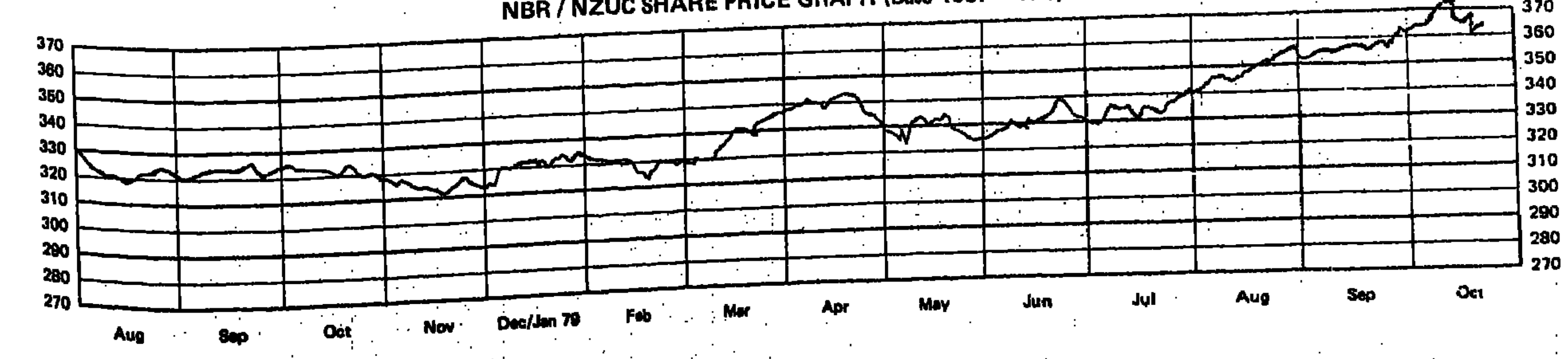
Provided that policy [illegible] maintained, there seems [illegible] reason why the company should not continue to improve its profitability.

NBR SHAREMARKET SURVEY

WEEK ENDING OCTOBER 18, 1979

1979 High	1979 Low	Company	Last Sale	Week's High	Week's Low	Dividend %	Reported Turnover	Dividend Yield	P-E Ratio
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

NBR / NZUC SHARE PRICE GRAPH (Base 1957 = 100)



UEB waves investment flag in the 'mainland'

Christchurch Correspondent

THE Auckland-based conglomerate UEB Industries is getting ready to add another two legs to its three-legged operation.

Managing director Rob Tedcastle sees UEB in the future running on five legs, instead of three present ones of packaging, carpets and tourism.

At a briefing for financial journalists in Christchurch, the UEB executive team hasn't denied that one area for immediate expansion will be energy.

But details weren't forthcoming as the function was largely to show the flag in the south and give the message to the local media that investment in the "mainland" still figured in the future.

The company's investments now total \$21 million, ranging from motor hotels in Picton to a wool scour and carpet complex in Invercargill.

The majority of these activities have only recently come under the UEB umbrella, with the most publicised being the Trans Holdings tourist business.

The tourist gamble seems to have paid off for UEB and Trans boss Don Mundell has joined the UEB board as an executive director.

Though he has now moved to Auckland, Mundell says the worst of the tourist slump is over. The uncertainties of Government policy, air fares and the over-valued New Zealand dollar have all been removed, he believes, and the industry is poised for further strides.

But Mundell doesn't see the future with tourism from exotic sources like Japan, Western Europe and the United States. The Australian connection, under which Trans prospered, is still the bread and butter of New Zealand tourism.

"The number of bed nights spent in the country is the name of the game," he says. "And compared with Americans and Japanese, the Australians spend twice the time and longer in New Zealand. That's where the money is."

ROB TEDCASTLE ... contemptuous of interference.

DON MUNDELL ... worst of slump over.

LYN PAPPS ... corner turned.

Mundell says the fuss over cheap fares to Europe doesn't really help the local industry, as most using them to come here are VFAs (visiting friends and relatives).

He says the merger with UEB has paid off expected dividends financially, and with the tourist sector's seasonal liquidity, provides a valuable cushion.

"Since merging with UEB the number of approaches to us with tourist projects has trebled," he says. But he admits Trans doesn't want to rush things because it still has yet to overcome the downturn in the Fijian side of the business.

Mundell takes a hard-nosed line on airport development, a sore point in Christchurch.

He says it makes no sense for Christchurch to pretend it will be anything more than a gateway to Australia, and discounts parochial pressure for direct flights from North America and elsewhere. Except he does lament the direct Fiji flight, scrapped by Air New Zealand before it had a chance to prove itself.

Mundell's typical tourist arrives in Auckland and then travels south where most of the time is spent looking at the scenery, before flying out to Australia. Anything else is illogical and would disturb the general pattern of travel within the country.

Against the luxurious backdrop of the Trans-owned Chateau Regency, the UEB team waxed optimistic about the future of the economy.

Chairman Lyn Papps says the corner has been turned and soon the flow of population back into the country will begin as recent decisions on future economic development take effect.

Though not specific, Papps sees UEB moving into future growth areas of the economy as it had with tourism.

He has promised a better half-year for UEB than in the corresponding previous period, despite inclusion of Trans in the accounts during its low season income.

UEB also aims to strengthen its position in the areas it is best known for. The carpet industry has sagged because New Zealand prices haven't been as competitive until the devaluation, and Australian quotas last year weren't filled.

Managing director Tedcastle is contemptuous of bureaucratic interference in the milk cartoning controversy and equally the carpet printing row.

He says the latter has proved beneficial in the long run as UEB was forced to develop its own machine to rival the Millitron. But in the milk debate, Tedcastle says UEB is close to giving up, and has lost its two to three-year lead with its Pure-Pak licence, because of political obstacles.

UEB can only await the outcome of the Government committee studying the matter but don't be surprised if it quietly licks its wounds and declares defeat to the bureaucrats.

It's a lesson the company will keep in mind in future activities and Tedcastle will no doubt voice his concern again if commercial ventures again become political footballs.

"A company rises or falls whether it's done its homework, and there's no place for a Government to interfere when commercial risks are being taken," he says.

"Do you think the directors ever pretend to be us?"

Investment unit clears path through labyrinth

by Peter Isaac

DESPITE a widespread misconception the new Trade and Industry Overseas Investment Unit provides a hand-holding service for local as well as foreign investors.

True, the main objective of the unit is to prevent those horror stories of recent years in which it appears that massive amounts of overseas cash have been turned away simply because, say, some members of management did not meet immigration criteria.

But a local firm doing a good job can call upon the unit as well, if it seeks to make an investment within New Zealand.

Even so, the investment unit has absolutely no executive powers. Like Royalty, it can only advise and encourage. It cannot issue directives.

"We are a flute rather than a brass band," explains unit director Irving Gair, "we are generalists."

Gair sees his task as a question of putting the right people in touch with one another — and then making sure that each party gets what it wants.

A persistent problem with overseas investment is the way in which substantial deals have been on the verge of conclusions, then have stalled — often because of a minor hitch.

The unit also serves as a single centre of inquiry. In the past, overseas investors have been amazed at the sheer sophistication of the bureaucracy in a nation of three million.

They have often found themselves locked into an endless revolving door of central and local government bureaucracies, shuttling all the time between departments trying to find the man who can give them a decision.

Gair's aim is to make sure they avoid the maze. And if the overseas investor is already in it — to pull him out into the daylight.

"We no longer want to see examples of people being shunted around," Gair said.

The unit has three objectives: to assist all investors in researching their projects; to ensure that applications flow quickly through Government departments; and to streamline investment proposals into areas where the cash can do the most good.

The overall theme tune of the new state agency is to get the message through to Government departments that speed is important.

In other words, if money is kept waiting it is quite likely to go cold.

The unit also has an overall semi-marketing function to "increase" the number of investment proposals in the right industries.

In part, the brief for the new unit makes this comment: "There is evidence that existing consent procedures for new projects have been found somewhat burdensome and complex, particularly for overseas investors."

At the same time, the unit exists to draw attention to the growing range of Government incentives.

Among these incentives are the export manufacturing investment allowance of up to 20 per cent and the regional investment allowance which tries to lure industry into the remoter areas.

The unit originated in this year's July Budget when Prime Minister Rob Muldoon admitted that there were some startling misconceptions internationally about the New Zealand investment picture.

The major problem, Muldoon said at the time was the widespread view that the 24.9 per cent foreign equity above which approval was required was the maximum equity holding permitted.

In fact, it was merely the trip switch at which the Government's own overseas investment commission became involved.

Muldoon said: "It should now be quite clear that the level of equity participation will be only a relatively minor factor in the assessment of any proposal."

In effect, the State is now welcoming overseas investors with a warm smile that has replaced the cynical sneer of the old attitude.

For example, takeovers of companies with assets of less than \$500,000 and the purchases of assets of less than \$500,000 now receive automatic approval, unless there is a direct conflict with the good-of-the-country guidelines.

At the same time, the issue of new shares by a company to an overseas stockholder now requires no approval, providing that the foreigner does not buy in total more than 25 per cent of any class of share.

The unit's importance is basically the "come right on in" attitude and its cross departmental overview. All investment benefit information from bulk power concessions to environmental emission regulations are available from a single source.

The inherent problem with the new unit however, seems to be that it has no executive override. It cannot cut in on an operational basis.

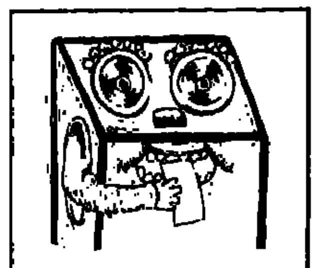
The only way the unit can dynamite an overseas investor out of a bureaucratic logjam is to use powers of persuasion.

"Our aim," Gair said "is to encourage a positive attitude toward investment."

IRVINE GAIR..."we are generalists".

Far-flung branches retain name

by Stephen Bell



COMPUTERS

ITEL, the only IBM look-alike to gain a foothold in the New Zealand market, has been pulled out of its financial troubles and "loss of credibility", by the sale of its data products business to National Semiconductor.

The Australian and New Zealand operations, though, have been left in limbo for another few months, together with South America.

While the rest of the world's Itel offices were shifted at high speed under a brand new umbrella company, to be known as National Advanced Systems Corporation, these portions temporarily continue under the Itel name.

There is every possibility that these offices will also be absorbed into NASC in the near future, say Itel spokesmen. But it is possible that they will be left as Itel, or even treated in some other way.

The sale of data products, for an undisclosed sum, was pushed through so quickly that National Semiconductor had no time to investigate the affairs of the more far-flung branches.

This, said Australian managing director Bruce Egginton, was the primary reason why their fate has been deferred for the time being.

It may be significant that Itel Australia ran at a profit in the year's second quarter, while the data products operation as a whole made a $60 million loss. If it were necessary to defer the absorption of some national operations into NASC, the Australian office was one of the safer prospects.

Yet speculation persists that there might be some justification for treating the Pacific area on a different basis permanently.

One possibility is that there could be a deal brewing with Hitachi, the Japanese company which supplies Itel's large processors, while National Semiconductor takes care of the smaller end.

Hitachi has been curiously inactive in Australia, in the past, leaving some large contracts to compatriot Facom.

Whatever happens, Itel's relationship with Hitachi is likely to continue, said Egginton. The contract between the two companies is assignable and can be transferred to the new company.

NASC is wholly owned by National Semiconductor, but profits, from the beginning of 1980 onward, will be split 50-50 with Itel.

For the remaining quarter of 1979, Itel will stand the full impact of any losses made by the new company, but equally, said Itel data products president John Clark, it could benefit from the whole of any profits made.

The new company, Clark pointed out, will not be burdened with any liability. The long delivery schedule announced by IBM for its 4300 series places these machines at a disadvantage in competition with Itel. The new link, Clark says, removes the issue of Itel's viability.

Itel will invest $7.5 million in NASC by the end of this year, and, will be later given a chance to buy $20 million worth of preferred stock; an opportunity which will probably be taken up.

Major task for the new company will be to quickly dispose of the 60 machines built for it by National Semiconductor and not yet sold. The cost of these machines is the major factor in Itel's second-quarter losses.

Domestic aviation policy under review

HARD on the heels of the just completed review of international aviation policy, the Transport Ministry is about to review domestic aviation policy.

The long-awaited review of international policy is now with the Government waiting for decisions.

And to complete the ministry's survey of all aspects of the transport scene internally and externally, the domestic market's operations are to come under the officials' scrutiny.

Third-level airlines, air charter and air taxi work carried out by aero clubs and flying schools, safety standards and flight training, and the operation of licensing and fare fixing procedures, will be included in the survey.

The review will follow the deliberations of the Transport Ministry committee on licensing set up by the Government earlier in the year.

Deliberations on that subject are drawing to a close and the officials' recommendations will be with the Government shortly.

Most attention in the licensing review has focused on road transport, but air services licensing has been another issue for the officials.

The idea of allowing an operator to sub-lease his authorised routes to another firm is being considered.

It was originally mooted last year during abortive discussions on developing a policy to help third-level operators improve their standards and extend their service range.

Those discussions became associated with others on the less economic parts of Air New Zealand's domestic network.

A change was mooted to the Air Services Licensing Act allowing an operator (in effect Air NZ), to contract the service out to a third level airline. Air New Zealand or possibly the Government would then assist the third level company to buy suitable equipment so the existing service could be carried on at an acceptable level of frequency, safety, and capacity to all concerned.

Smaller centres would not lose their air links; they would just be served by aircraft other than Friendships.

Air New Zealand [illegible] relieved of a financial [illegible] in providing an [illegible] service; and third [illegible] airlines would get some [illegible] routes they could run [illegible] profit.

The concept founder[illegible] lack of a suitable aircraft [illegible] enthusiasm for [illegible] purchases for third level [illegible] also waned considerably.

One outcome of [illegible] ministry's licensing [illegible] domestic aviation [illegible] could be the axing of the [illegible] Services Licensing Authority.

One body of opinion [illegible] the ministry asserts that [illegible] authority serves no [illegible] purpose in assisting [illegible] development of commercial aviation and that in [illegible] respects it is harmful.

It is argued that [illegible] regulated environment [illegible] would change to alter Air New Zealand's and Mount Cook's overwhelming position [illegible] market.

On the other hand [illegible] officials are arguing [illegible] authority's operation [illegible] the prosperity of [illegible] airlines because their [illegible] are controlled.

Why, the argument [illegible] should an airline or even aero club not be able to [illegible] more than Air New Zealand domestic fares on a particular route? If the market will [illegible] that, what is wrong?

Another area likely [illegible] examined is the role played [illegible] aero clubs and so [illegible] possess air charter and [illegible] licences.

Several larger clubs [illegible] quite extensive and [illegible] networks, but it's argued [illegible] those activities are [illegible] ancillary to the clubs' [illegible] purposes.

In the agricultural [illegible] there's been an [illegible] about the effects of [illegible] on the top dressing [illegible] While the licensing [illegible] may not make any [illegible] change in the short term [illegible] policy review will [illegible] look at the orderly development of aviation within [illegible] country.

The question is how [illegible] orderly development will [illegible] best fostered, and whether [illegible] will involve any major shift [illegible] emphasis within the industry as a whole.

Court leaves wage fixing responsibility clouded

Special Correspondent

THE Arbitration Court decision the other day, to award drivers and their employers a settlement which differed from that reached in conciliation only in the term (12 rather than 10 months) has left many unanswered questions in the minds of the parties to that dispute.

Probably the most unsatisfactory feature of the four month-long dispute was the uncertainty, ever present in the minds of the negotiators, created by the absence of a clear statement of the Government's intentions towards wages policy in the run up to this year's wage round.

This year there was no shortage of ideas on what changes should be made to the wage fixing system.

The Employers' Federation started off in May with the release of "Balance In-Bargaining", followed by the Federation of Labour's "minimum living wage" concept in July, and latterly by the Engineers Union's claim for indexation of wages to the Consumers Price Index.

Instead of a rational and joint discussion on the merits of these various ideas, June and July were marked by skirmishings by the parties to obtain their particular point of view.

Take the minimum living wage: the FOL chose to establish this concept in the Arbitration Court, with the consequence that the Government was virtually forced to hasten the demise of the General Wage Order system, given the very real practical problems of implementing an MLW.

With no General Wage Order legislation, free wage bargaining became even more "free", as the formal legal constraint on the cost of living being argued in conciliation was removed.

This allowed the Arbitration Court to conclude that — legally — there was no impediment to an award being registered with a cost of living indexation clause.

Prior to its repeal, this was prevented by the General Wage Orders Act although in practice the cost of living was implicitly taken account of in the trend setting awards.

The irony of the recent changes in the legislation is not that there is less freedom given to the wage negotiating parties by the 1979 Remuneration Act but more.

Previously, the Economic Stabilisation Act 1948 gave the Government very wide ranging powers to pass any regulation it saw fit to control wages, a power used throughout the 1970s in a number of ways.

The uncertainty created by the Economic Stabilisation Act has been partly removed by making the ground rules on Government intervention more apparent in the Remuneration Act. For example, intervention is statutorily not now possible in decisions made by the Arbitration Court or by the named wage fixing tribunals, whereas prior to the passage of the Remuneration Act there was no legal impediment to the Government setting aside a decision of the Court.

On the other hand, the Government can intervene in individual negotiations, a power that is proably very necessary in New Zealand's case where the future of free wage bargaining is directly related to obsessively frail wage relativities.

The union movement however, saw the Remuneration Act as a major assault on its freedom to reach any agreement it liked with employers, whatever the tactics used by either side.

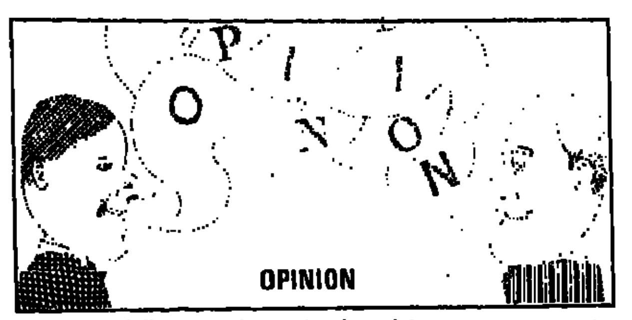
But how realistic is the view held by most unions and many employers, that free wage bargaining means wage settlements at any price?

It has never been true in New Zealand that the negotiating parties have been able to do this.

"Free" wage bargaining is a concept with boundaries, just as "freedom" in any workable democracy in bounded by what is acceptable to the majority.

The problem is how to establish and identify the boundaries beyond which particular or general levels of wage settlements "should" not go.

In this context no government can abdicate its share of responsibility for such a major economic parameter as the movement in wages.



To do so would throw the responsibility on to unions and employers.

For reasons yet to be explained adequately to the parties and the public, the Government judged that the parties did not appreciate the role that wages play in the wider economy in the proposed level of settlement of the drivers' award at the time it stepped in with the threat of regulation.

Can one assume that the Arbitration Court's decision on the drivers was a wise judgment in the economic sense which the Government considered so important? It is difficult to see this.

The action of the Government and unwittingly the court, had the effect of allowing some other major awards to settle before the drivers' settlement was finally promulgated and in that way, the 1979-80 wage round will probably settle 2-3 percentage points less than it would have had the drivers' conciliated settlement of September 11 been allowed to stand.

If that had not happened, wage costs in 1979-80 would have risen by 18-20 per cent.

Apart from the large gap between these figures and the 11-12 per cent employers consider reasonable to avoid damage to export competitiveness, such a large rise in gross wages coupled with the recent 6-8 per cent cut in taxes would put an inflationary head of steam under the economy that would create major problems for government economic policy next year.

Like many of the General Wage Order decisions in recent years, the court's decision in the drivers' case seemed more concerned with the preservation of good industrial relations, than with the wider economic issues.

It is much easier to see the side effects of an unacceptable court decision on industrial relations than it is on the economy, so this perhaps explains the predilection of legal bodies in the industrial relations arena to fix attention on industrial relations rather than on economic considerations.

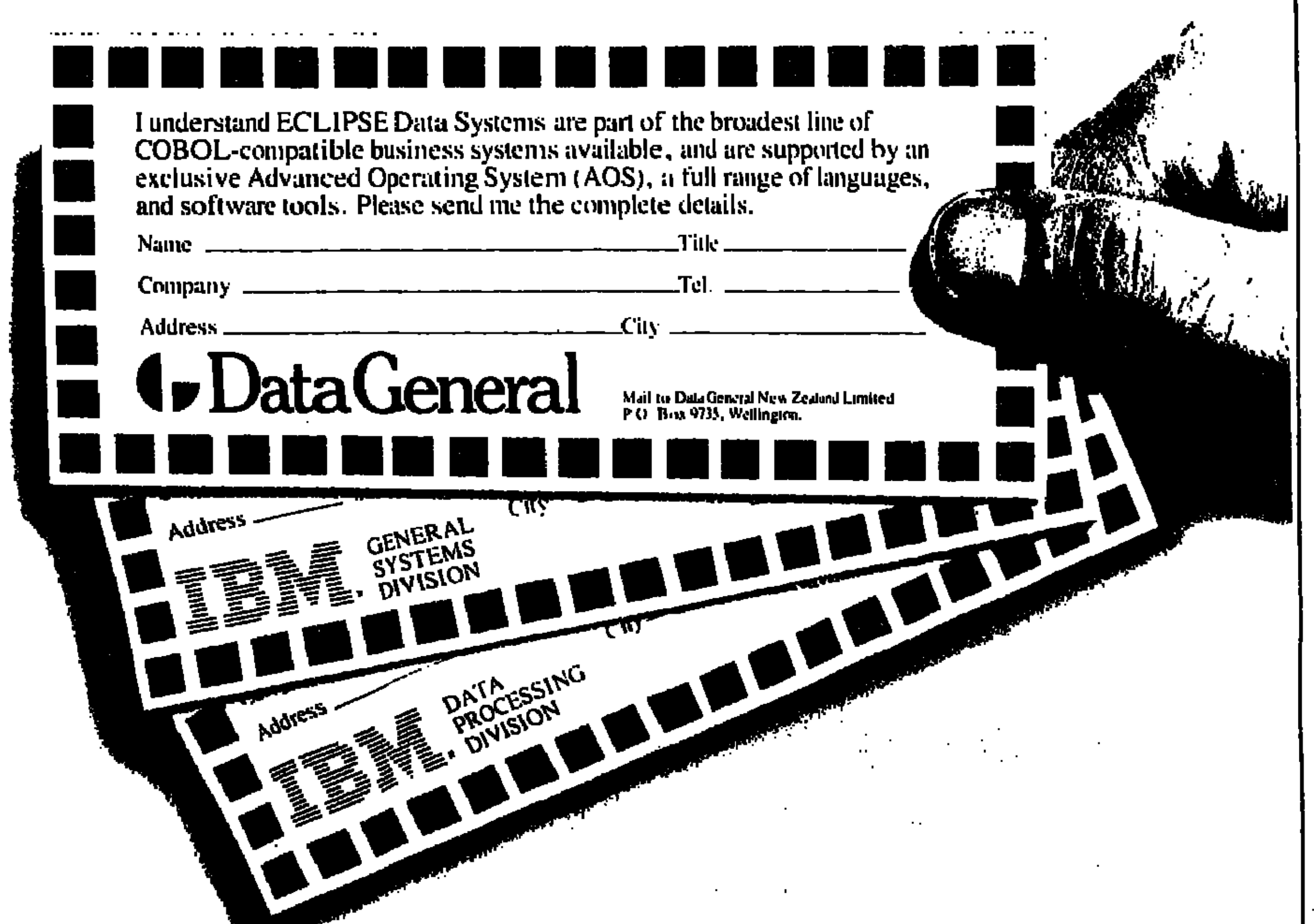
It also explains the nervousness of any government to delegate the responsibility for major wage fixing matters to legal bodies.

All of this seems to put the responsibility for economic policy in the wages area back with the Government.

It also leaves the question of how that responsibility should be exercised in the marketplace, very much up in the air.

If neither unions, employers, nor the court (and this may be unfair on the latter without established criteria in law) appreciate the wider economic issues, it seems that "free" wage bargaining leaves the Government and ultimately Parliament, very much involved in the wage fixing area, as it has always been.

The question for the Federation of Labour, the Employers' Federation and the Government, in the course of their wages policy deliberations, over the next few months is just how much?



Downturn forces rethink

AUSTRALIAN manufacturers, generally, of necessity had a very protected market in the formative stages of industry building. As a result, and in time, they become complacent.

They did not think it necessary to invest in updating products and technology to provide consumers with the latest products available overseas at competitive prices, even allowing for the much higher cost of Australian labour and associated overheads.

In 1974, the Whitlam Labour Government decided to reduce tariffs on all imported goods by 25 per cent. This had a dramatic effect on the manufacturing industry in a short space of time.

Almost immediately, competitive goods started to flow into the marketplace, selling to the consumer at lower prices than those goods manufactured in Australia.

The short-term result was predictable. Sales and profits of local manufacturers were significantly reduced and manufacturers cut back production and reduced capital expenditure.

So quickly was capital expenditure cut back that in 1975, total capital expenditure on machinery and equipment had dropped by 7.3 per cent on the previous year. It wasn't until the end of 1978 that capital expenditure reached the level of the 1974 year, when tariffs were changed.

The Australian manufacturers had to reassess their overall total business activity and change their strategies with the new tougher business climate before them.

The immediate action by those that survived was to prune all overheads, and improve their overall efficiency and methods to enable them to carry on in the short term.

Further, to compete with advanced overseas technology, it called for a reassessment of expenditure in the medium-term to update technology and product development, making the local products comparable to or better than those imported.

Through most urgent competitive circumstances, not choice, Australian manufacturers were forced to find "a better way".

Many companies accepted the challenge, reacted to change and achieved success. Those who did not phased out or perished.

Of the 11 major manufacturers of white goods, embracing washing machines, refrigerators, freezers, operating in 1974, five now remain as a result of acquisition or cessation of business.

Sunbeam Australia, has reacted well to changed circumstances and has become a more dynamic and efficient company.

Sunbeam Australia sales rose by 98 per cent from 1974 to 1979, and profits by 245 per cent for the corresponding period.

Up to 1974, Sunbeam Australia, manufactured locally 98 per cent and imported 2 per cent of the products it sold in Australia. By 1977, the locally manufactured percentage dropped to 68 per cent.

But today this has risen to 89 per cent as a result of continuous improvement in efficiency and methods.

Many of these were designed in Australia and will be used by the corporation on a worldwide basis.

Success demands risk-taking and investment in new technology

A TOUGHER commercial climate is forcing businessmen to seek "a better way" of operating. Australian Sunbeam Corporation managing director Kevin Cashman shares some practical insights into proven marketing techniques used to achieve that "better way" through the creation of market expansion, greater sales and increase profitability.

IT IS vital to New Zealand's overall economy that you increase your exports and compete in world markets. Certainly the Government has recognised the need for exports by providing excellent incentive grants.

The New Zealand Government has tangibly played its part in creating increased export opportunities for local manufacturers.

New Zealand manufacturers have had some remarkable export success stories, which are examples of how imagination, hard work and enterprise have enabled them to compete in world markets with excellent success, where previously they would not have had a remote chance.

But, to compete, manufacturers must invest in updating toolmaking and research and development.

Sunbeam Australia is selling products it designed in Australia on a worldwide basis. Three years ago we would have been extremely sceptical of such success.

Sunbeam New Zealand, having learnt from this success, is now selling frypans and lawnmowers into Australian markets and competing successfully against Sunbeam Australia. The financial rewards they have achieved have spurred them on to greater efforts to export.

Those countries and those organisations that will attain success are those which learn to take advantage of change. That remain receptive to new ideas and new methods.

Since 1974 retail sales of portable appliances in Australia have doubled. In 1974 total retail sales were $110 million. By 1978 they reached $220 million.

It requires enthusiasm and prudent risk-taking as the key elements of organisations to make a decision to invest or increase investment in new technology and innovation.

This tremendous growth has come about as a result of two factors.

- The injection of a multitude of new products into the marketplace; and
- The correct promotion and advertising of these products as well as existing products.

The past year has seen the largest number of new product innovations in the history of the Australian portable appliance market. Seventy per cent of the products currently available to the Australian consumer were not available five years ago.

Australian portable appliance marketers have recognised the need to be able to react quickly to change.

There has been a fundamental change in direction within the industry — Australian marketers are designing and releasing new products with not only their own objectives, but also with the consumer, in mind.

In retrospect we have discovered the obvious — if the consumer wants it, we can sell it. Thus, all strategies designed to create and expand markets begin with the consumer.

It is of little consequence whether we consider a product concept to be exciting. The key to its success is that the consumer considers it to be exciting.

But, the tool for success is the critical analysis of product, pricing, advertising, promotional and distribution strategies, the combination of which is referred to as the marketing mix.

Markets have to be created — they don't just happen.

First, if we are to establish whether the product concept is viable, then considerable "up front" expenditure in consumer research is vital. This research should not only involve the consumer acceptability of the product concept, but also, the consumer's price perception.

At this point we must also isolate and define precisely the target market as well as the correct product positioning.

Based on the results of this concept research, a decision must be taken as to whether we proceed or cancel. If the concept has merit and is capable of being manufactured within the cost bounds indicated in the concept research then we should proceed to the next stage.

The product concept must then be refined in terms of alternative design and feature combinations in line with the findings of the concept research. The refined alternative products should be built in prototype form, and once again preference tested at varying price points with consumers to identify the most saleable combination of design, features, and p[illegible] the most saleable p[illegible]

Throughout this [illegible] stage an established [illegible] should be used as a [illegible] to establish sales [illegible] expectations.

On taking the deci[illegible] proceed, from a [illegible] viewpoint we enter [illegible] the most critical aspe[illegible] entire programme. Th[illegible] formulation and deve[illegible] of the advertising [illegible] promotional strategy.

The stage embraces [illegible] vertising concepts, pa[illegible] concepts, promotional [illegible] demonstration techniq[illegible] public relations.

By this time, as we [illegible] conducted two pr[illegible] research projects, w[illegible] have a wealth of inf[illegible] on the product pos[illegible] target market, [illegible] promotable featu[illegible] associated with the pr[illegible]

The advertising ag[illegible] should be briefed to p[illegible] alternative advertising [illegible] cepts and packaging [illegible] designed to prese[illegible] product in its most sa[illegible] aspect.

KEVIN CASHMA[illegible] "better way".

At this stage we [illegible] vinced that there is [illegible] of substantial size. The [illegible] issue is to present the p[illegible] in such a way as to [illegible] the full sales potential [illegible] tained.

The aspect of packag[illegible] often overlooked or [illegible] handled. Packaging [illegible] integral part of the p[illegible] of the product. [illegible] packaging is good poi[illegible] But consider the [illegible] amounts of effort ap[illegible] both areas.

Packaging is so o[illegible] poor relation. It sh[illegible] treated as an extensi[illegible] advertising content [illegible] maximise the total adv[illegible] impact.

These advertising [illegible] packaging concepts [illegible] pre-tested on consum[illegible] refined until th[illegible] presentation of the p[illegible] achieved in terms of [illegible] stimulation, awarene[illegible] product benefit [illegible] munication.

At this point we [illegible] defined:

(1) That a market [illegible] substantial size [illegible] potentially profitable;

(2) The correct adv[illegible] presentation of the pr[illegible] the target market;

(3) The correct pa[illegible] presentation of the pr[illegible] the target market.

But there is no [illegible] having the right product [illegible] right price, at the ri[illegible] unless you are willing [illegible] in moving that product [illegible] warehouse floor th[illegible] reseller to the consum[illegible] media plans [illegible] developed to ensure [illegible] product gets ma[illegible] possible impact and [illegible] to the pre-defined [illegible] market.

The critical factor [illegible]

Continued [illegible]

release to salesmen and then to the retail trade.

If these releases fail, then all that has gone before is of little consequence. The product and-or marketing package must be presented in its complete form, using: production samples, the final commercial, the packaging, professional demonstration, precise and firm media plans, point-of-sale material, advertising support literature, and lastly, price.

If the product is truly new, then we need to turn on both our salesmen and the trade with the total marketing package of which price is only one component. It should never become the primary factor.

The consumer launch should be planned to achieve maximum impact. Ample time must be allowed for complete pipeline stocking prior to the consumer advertising launch.

By the time the launch to the consumer is effected, we have the right product at the right price in the right place at the right time presented in its most saleable light with maximum impact.

The programme does not end with the launch. We then need to follow-up by monitoring take off in the early product life through post-testing the advertising, to determine awareness, recall, and communication of product features and benefits; to determine user satisfaction with the product; to determine if and why we did not achieve maximum sales potential and take corrective action, and to determine the need for support advertising and timing of sales promotion programmes.

Out of this follow-up we may also determine that a phase two product correcting user deficiencies is a viable proposition.

At Sunbeam, this is the technique used in all new product development-launch strategies. It is not infallible, but the most important aspect of the technique is the follow-up.

If we have made a mistake, we need to know why and where it happened so that in the future the mistake does not recur.

In 1976, a potential new product introduction into the Sunbeam range became available. The product was a combination appliance designed to operate as a 10-speed blender, a 10-speed mixer and a food grinder.

In addition, five optional attachments were available for supply with the product. The problem was the fact that the unit would retail in the Australian marketplace at a price approximately double that of alternative products, (although the alternatives were considerably inferior).

The price point was well over $100 dollars, a psychological barrier at retail for portable appliances in Australia at that stage.

Consumer research projects were carried out to determine whether the Australian market was ready for a combination product at such a price level. The consumer reaction was such that we immediately decided to proceed.

We dispensed with the second stage of product concept research because we could not alter the design. The product was sourced from the United States and we could not tamper with the tooling.

Out of the initial product concept research came the product positioning. It was attempting to position the product as a mixer or blender with extended usage. But, the product position was defined as "a total food preparation system".

The target market was defined as households (not housewives), made up of adults in the 30-40 year age bracket, with young children, and who were interested in entertaining.

The target market was not defined as housewives because the price tag of $120 put the product into the category of a considered purchase.

The advertising agency was briefed to prepare four alternative advertising concepts, which were pre-tested on consumers in May, 1976.

None of the approaches achieved the objective of communicating "the total food preparation system" concept. The product in each case was perceived as a replacement to their existing product, generally a Sunbeam mixmaster food mixer.

The only exception to this was an 8-in-1 concept, which totally confused everybody. Even to the extent that the respondents did not know what came in the package.

But there were enough positive aspects associated with one of the concepts to pursue the avenue further. This concept was refined by changing the presenter from a personality to a credible housewife in the target age group, and by altering the construction and mood of the commercial to create interest first in the food and then in how the end-result was achieved.

These simple revisions to the commercial were included and the concept re-tested.

The packaging concept was based also on "the total food preparation system" concept to tie-in with the commercial. Each panel on the carton explained one function of the product.

The product was released to the trade and media along with product demonstrations, a training film, the commercial, the carton, point of sale material, promotional leaflets and pricing, at major functions in each state capital and provincial centres.

Samples were supplied to journalists and publicity for the product was locked in.

The kitchen centre was launched on television and in magazines in March, 1977. We exceeded our sales target in year 1 by 180 per cent.

In conjunction with the launch we set up a "kitchen centre club" whereby each purchaser automatically became a member which entitled them to additional recipes developed for the product and special offers on attachments through specified retailers.

Mailings were conducted to owners on a quarterly basis. This was part of the follow-up stage.

Since the release of the kitchen centre in 1977, we have reviewed the product in consumer research and earlier in 1979, we released the kitchen centre electronic, which eliminates product deficiencies existent in the first model. At a higher price still, the new kitchen centre is an even greater success.

Thus maximising market potential can be achieved for any new product as long as a professional approach is adopted, using the correct marketing techniques.

What of existing products? How do we go about expanding an existing market?

Many markets do not achieve their maximum sales potential for many reasons; primarily associated with a deficiency in the marketing mixes of the companies involved. This may include a deficiency in the product itself, ill-directed advertising, lack of sales promotion or demonstration, incorrect pricing strategies, or lack of follow-up, to name a few.

The key to obtaining full potential in such a market is to critically analyse your marketing mix from start to finish. Again, this must start with the consumer.

If you identify a product that you feel is not achieving full potential, take it to the consumer.

By conducting problem-solving consumer research projects you can identify which particular aspect of the marketing mix is deficient and take corrective action in that area.

In 1978 we were considering the introduction of a milk shake maker on the Australian market, but were hesitant because a competitor had been marketing a similar product for several years with limited success and milk sales had been waning in Australia for some time.

Before taking any decision to proceed, a series of group discussions on the product were held in Sydney. The results of these groups indicated that, in the past, the product had been marketed specifically as an electrical appliance with the target market defined as adults.

These groups convinced us that the product needed to be positioned as an "in home" milk bar with the target market being children under 12. If we excited the under 12's then the adults would buy the product. The product should be marketed not to adults, but to children.

The promotional direction for the product was altered dramatically. We needed to develop a product and advertising package designed to stimulate interest and desire to a totally different market.

The advertising agency was asked to develop alternative integrated advertising and packaging concepts around the product name "Great Shakes".

These commercials were pre-tested with the defined target market.

The media strategy was designed to have its major emphasis in children's morning and afternoon programmes so as to achieve maximum exposure to our target market. The carton is the greatest attention getter in any electrical appliance department in Australia.

The effect has been to expand the market size three-fold in one year, and our market share is more than 50 per cent.

SUNBEAM . . . recognised need for change

Marketing warfare base

Continued from Page 21.

This result was achieved through critically analysing the components of the marketing mix for the product to identify whether the opportunity existed for market expansion by altering direction of emphasis within any component.

The third technique for market expansion is based on "marketing warfare".

In 1974, an Australian importer released a two-slice sandwich maker on to the Australian market. The product was a sleeper until 1976, at which time this competitor poured large advertising and promotional expenditure into the product category on the release of a new model.

The result of this advertising and promotion was to create massive growth in their sales. They were, without doubt, the market leader in that product category with virtually no opposition.

We determined that they had made a gross error in the product configuration of their new model. Adopting a strategy which we will call "offensive marketing warfare", our main consideration was their position of strength.

With this in mind our attack on this competitor needed to be launched on as narrow a front as possible, attacking the weakest component of their marketing mix, their product.

Having gone through the stages of our new product development strategy, we launched our competitive product in October, 1977.

The product difference lay in the fact that due to the configuration of our plate design, now known as "deep dish", we had a major advantage over our competitor.

The Sunbeam product would take extra sandwich filling and could be demonstrated as being capable of preparing a sealed egg jaffle, (as this sandwich is known in Australia).

This product was launched on television in October, 1977, with support magazine advertising and dealer promotions.

The effect of this new product was not only to reduce the competitor's sales and market share, but also to expand the market size by some 150,000 units in 12 months.

The total market in 1977 was 500,000. In 1978 it reached 650,000 units.

By the end of 1978, we were the market leader.

Once the position of market leadership is attained it is easy to become complacent. But, at this time we knew our competitor was working on the launch of yet another model which could reverse the leadership position.

We adopted the only strategy available to a market leader — "defensive marketing warfare". Only market leaders should adopt this strategy (using the old military adage — "the best defence is a good offence").

Throughout 1978, we developed a new product concept known as the "four at a time" sandwich maker, as we had determined that once again a product deficiency existed within a certain market segment — capacity.

In November, 1978, the four-at-a-time sandwich maker was released on television.

We had anticipated our competitor, as one month later they released their version of the "four-at-a-time" but still with a deficient plate configuration.

The effect of the release of these products marginally increased market size in unit terms. But, in terms of turnover and profitability, the expansion was very large indeed.

Since November, 1978, we have been subject to extreme competitive pressure by the previously mentioned competitor and a new competitor have adopted a "flank attack" by price cutting.

Once again, we have opted for a strategy of defence, not by price cutting, but by again developing a product designed to further alter the competitive parameters.

In the short term we developed a product model to attack competitors in their area of strength — the "half-slice" sandwich maker.

But, the main thrust in defensive strategy was launched this month. Once again, the products currently marketed were established through consumer research to have deficiencies — plates, and therefore associated cleaning problems also, limited application — only made toasted sandwiches.

Hence the launch of the "click change" sandwich maker in October.

True, this product will greatly expand the market. But, the market share structure of the market will be drastically swung once again in our favour.

Design for exporting

"THE industrial designer is the form-giver. The designer usually takes on the responsibility for compiling a total and balanced view of the problem and then devises an appropriate form to meet the stated needs."

This quotation is from an article in Designscape written by Michael Smythe, president of the New Zealand Society of Industrial Designers.

Designscape is the monthly magazine of the New Zealand Industrial Design Council which describes its publication as "the most comprehensive design magazine produced in New Zealand or Australia," which it probably is. And it is conforming solidly to the principles outlined by Smythe above.

Although the objective of Designscape has always been to encourage good design and in particular to urge manufacturers to attain standards entitling them to use the visual proof of attainment, the council's Designmark, the publication has in the past traversed such fields as arts, crafts and architecture.

But the "stated needs" have changed. The contribution of the manufacturer to the export drive has been notable. The declared export goals are even more impressive. And good design becomes even more significant.

Mervyn Probine, assistant director general of the DSIR, told the NZ Society of Industrial Designers annual conference: "Industrial designers have an important role in the drive to improve the export performance of our manufacturers in designing products that compete in overseas markets in design and price and suitability for the needs of the market, in designing packaging for export and in designing promotional material for exporters."

So Designscape, having taken this new view of the situation, has re-shaped its editorial policy to give effect to the new imperative — design for export.

"New Zealand industry has a do it yourself background and for a long period designing has been the province of engineers," editor Jennifer King told Admark. "Increasingly, we are convincing manufacturers that the designer's services must be employed from the very beginning of the project, that good design is not just a matter of appearance, and that the Designmark award scheme represents an independent endorsement of quality and value for money and that it carries some weight in overseas markets."

King is using export success stories to illustrate the bonus of good design and has set about telling manufacturers of the assistance that DSIR and DFC can afford.

With every manufactured article that goes overseas, we export New Zealand design — some good, some bad, some horrible. Products that feature good design will have a competitive edge and that's why the work of the Design Council continues to be so important.

Admen reject police claim

THE allegation that advertising is putting tremendous pressure on children has been stoutly denied by advertising men.

Detective-Sergeant Glen Ford of the Hamilton CIB, addressing a branch of the Women's Christian Temperance Union, said that advertising created the impression that there were goods no self-respecting teenager would be without but most young people could not afford them. Open displays in retail shops were a temptation to shoplifting which was so often the start of a pattern leading to more serious offences.

Admark took the question to representative advertising men.

"It's almost traditional to use advertising as a whipping boy," said Colin Mortensen, president of the Association of New Zealand Advertisers.

"Though there's probably a rotten apple in every barrel, sweeping generalisations shouldn't be made on the basis of isolated instances.

"Advertising is a very subjective area and advertising messages can mean different things to different people. Does the police officer claim to know exactly what a teenager is thinking about when he responds to advertising?

"Advertising and self-service displays have been around for a very long time. Why does it suddenly happen that advertising has this dreadful effect? I don't believe it," he said.

Ross George is past president of the Association of Accredited Advertising Agents and managing director of Carlton-Carruthers du Chateau. "Except for items like records and the jeans clothing scene," he said, "I am just not aware of any large amount of advertising directed specifically to teenagers.

"It seems the comment has very little relevance to this country. Perhaps Detective-Sergeant Ford has been reading overseas accounts of juvenile reactions. Don't forget that media codes are explicit and responsible — in connection with liquor and smoking, for example — where a message could conceivably be addressed to young people.

"But could the detective-sergent tell me why I have to lock my house, my garage, and my car when previously it was never necessary. Isn't he blaming advertising for a general breakdown in morality?" he said.

The sales and marketing director of Radio New Zealand, Jim Robertson, was another to dispute the allegation.

"His remarks may have been taken out of context but I disagree that advertising could influence children so dramatically, Robertson said.

Television and colour advertising in print may attempt to glamourise certain life styles but this advertising is not directed to young children. As far as radio is concerned, apart from advertising for ice cream and soft drinks, we don't direct advertising to children.

"To control possible abuses, all media combine in a committee of advertising practices that looks closely at advertising and takes action if necessary," he said.

NPA's spokesman, executive director Michael Thompson was equally forthright. "I can see no correlation between advertising and crime," he said.

"Advertising's role is to communicate benefits inherent in the product which will meet consumer needs. It is not new for advertising to be blamed for society's ills but I know of no research which would support Detective-Sergeant Ford's comments.

"Rather than look at advertising, I believe he should consider the effect of teenagers' minds of the content of movies and television programmes. I believe these are far more likely to affect teenage behaviour patterns than advertising ever will."

The reply of Richard Lestrange, TV1's sales and marketing director was brief and to the point. "The broadcasting code as it refers to advertising and children is quite specific and we endeavour to conform to it. I am just not aware of any advertising that would offend in the way indicated."

Among the specific broadcasting rules are these. "Advertisements must not be framed in such a way as to take advantage of the natural credulity of children. Children should not be urged in advertisements to ask their parents to buy particular products for them. No advertisement should suggest to a child that he will be in any way inferior through not owning the advertised product."

So if Detective-Sergeant Ford is right, it seems that some advertisers are being allowed to break the rules. And that is about the most unlikely thing we can think of.

Pope faces razzamatazz

WHEN Pope John Paul II visited New York city earlier this month, millions of native New Yorkers, visitors and television vewers would have seen the welcoming message conveyed by hundreds of thousands of posters, lapel stickers, bumper stickers and bus and subway cards.

It said simply "Welcome, Pope John Paul II" but it said it in no fewer than 18 different language versions. It was an idea dreamed up by the chairman of the international agency BBDO who proposed the campaign to Archdiocesan officials.

But the agency had only left itself two weeks to design and produce the finished products. An ad agency after a fast buck? Not a bit of it. BBDO volunteers produced the campaign as a public service.

Government lures public into inflation trap

Economics Correspondent

UPON taking office in 1975, the Government promised to cut inflation to below 10 per cent. But it failed to set any records for controlling inflation despite propelling the economy into recession and causing the number of unemployed to rise to the highest level since the Depression.

So, the Government has now adopted a new strategy.

The new strategy is to kick the inflation rate as high as possible before Christmas.

Consumer prices rose by 5 per cent in the three months ending in September, the biggest rise in 32 years. Can the Government equal the increase of 5.2 per cent recorded in 1947 when war-time controls were removed?

High inflation rates have the danger of opening the Government to criticism by the likes of Opposition Leader Bill Rowling. He says the latest prices rises are a clear signal that New Zealand is on the brink of a massive spiral into uncontrolled inflation.

But the Government's reversal in strategy is not as stupid as it might appear. The high rate of inflation recorded in September gives the Government two cards up its sleeve in the economic and election stakes.

First, since there are ominous signs that inflation is bound to rise sometime during the Government's three year term in office, it might as well be encouraged to peak at the beginning. At the rate prices are accelerating, inflation could easily reach 20 per cent or more before the end of 1980.

An inflation rate of 12, 13 or even 15 per cent will seem like relief in comparison. The Government should be able to latest price rises are a clear slow inflation to at least 15 per cent by election year 1981.

The chart illustrates just how fast consumer prices have been rising this year. In December 1978, prices were rising at an annual rate of 10.1 per cent. By September 1979, they were rising by 15.2 per cent.

At Christmas it is a fairly safe bet that prices will be increasing at an unpleasant 17 8 per cent in annual terms. To achieve this record high for the 1970s, prices need to increase only by 5 per cent in the December quarter as they did in the September quarter.

And there is a high likelihood that prices will increase by at least as much during the next quarter as they did this September quarter, based on trends over the last 15 years.

With imports on the increase again, there will be rises in imported inflation and some of the effects of Government increases in fees and charges will still be feeding through. Bread and flour prices will also rise during the next quarter.

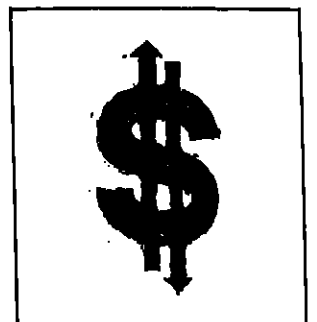
Further rises in the prices of petrol and milk are on the cards, although the Government may wait until early next year to announce these increases.

The second card the Government has up its sleeve is that it can now blame its economic problems on the unions, because they have pushed through "exorbitant" wage increases.

Although the Government has been arguing all year that wage demands have been too high, it has had difficulty convincing the public that they were inflationary.

According to Department of Statistics figures, wages rose faster than consumer prices last March year.

In real terms, wages increased by over 5 per cent. This fact and the recent quarter's consumer price rises



provides the Government with circumstantial evidence that expanding wages have led to inflation.

But the Government must think the public highly gullible if it believes it can use inflation as a stick to beat the unions with.

Economists are by no means certain about the causes of inflation. It is a question of which comes first, the chicken or the egg? Do wage increases cause prices to rise or do price rises cause wages to rise?

Further, if the Government's tax bite is taken into account, the amount of goods the average wage earner can purchase with his income has probably fallen.

The underlying cause of the rise in the rate of inflation is the Government's own economic policies.

Expansionary election year policies are taking their toll now. It generally takes about a year for increased Government spending and increases in the money supply to feed through into prices.

And it may also be these same increases in the money supply which accommodated the wage increases last year.

If the Government had really intended to get inflation down this year, it should have taken steps before the election last year to slow down the rate of growth in private sector credit.

But these comments can be made with the advantage of hindsight.

Other causes of inflation are more obvious. The Government was naive to think energy price rises would have only a small impact on the inflation rate. In September this year, the annual rate of increase in household fuel and light prices was 42 per cent.

And postal charges added to the rise of 16 per cent in the prices of services.

Indirect taxes have been partly responsible for the annual rise of over 25 per cent in the prices of tobacco and alcohol products.

This kind of increase is bound to add to the problems of household budgeting, since nearly 8 per cent of the average household income is spent on tobacco and alcohol products.

This is a larger proportion of household expenditure than fuel and light which makes up only about 3 per cent of base expenditure on average.

With the holiday season approaching, this news about the inflation rate is hardly cheering. But attempts by the Government to bring prices down quickly could be as harmful to the economy as it is to pursue a strategy of kicking prices upwards.

Even if inflation rises above 20 per cent, it should not cause too much hardship for most members of the community.

The benefits of pensioners and social welfare recipients are indexed to the cost of living, so adjustments will be made to account for rises in consumer prices.

Most salary and wage earners will get an increase of at least 14.5 per cent this year, which while implying a fall in real terms given the current annual inflation rate, should not place those with above average incomes in hardship.

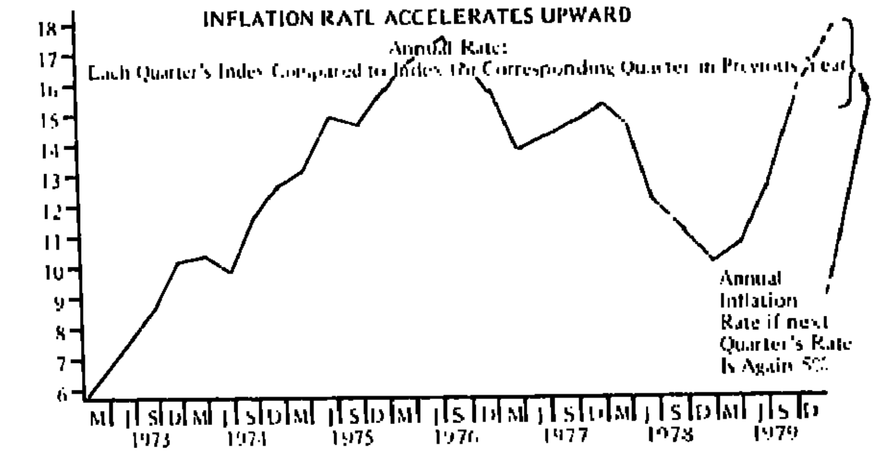
The main beneficiaries of inflation are debtors who find the value of their outstanding debt reduced in real terms. Creditors, are of course, disadvantaged by high inflation.

Inflation adds to the general level of economic uncertainty. Businessmen are less likely to become involved in risky new investment during inflationary times. It can make life difficult for exporters who have to pass on their cost increases to overseas markets through price increases.

But the Reserve Bank's flexible exchange rate system should protect exporters somewhat.

While the effects of inflation are uncomfortable, the effects of Government taking deflationary action at this time could be disastrous.

Business confidence is already low. If the Government attempted to dampen the rate of inflation by cutting back its own spending or tightening up the availability of private sector credit more than it already has, business confidence may plunge even further.



Because of low business confidence, firms have not expanded and many have contracted, resulting in unemployment of around 50,000.

If the Government contracts its own expenditure, the result will be even fewer jobs available and even more unemployed.

There will be fewer jobs because the Government cannot cut-back its spending without slowing down its hiring and because the ensuing impact on business confidence will result in fewer private sector jobs.

So, even if the Government does manage to drive inflation above 17 per cent this Christmas, count your blessings. Don't fall into the trap of thinking inflation is public enemy number one. You could eat a little less ham and buy a few less presents or you could find yourself among the unemployed.

Newsletter boom churns out some good some not so good

BUSINESS letters are burgeoning.

The concept has a lot going for it. When minutes mean dollars, a few concise sheets regularly supplying up-to-the minute economic and political information can be a valuable tool to the business man.

They vary from a succint summary of the latest on trade and politics aimed at the top end of the market to tip-sheets for the financially naive at the bottom. The marketing base varies as much as the content. Some are highly promoted offshoots of established publications, others are shoestring undertakings hoping to cash in on the present boom.

Belinda Gillespie inquires into the business of business letters ...

THE more you pay for newsletters, the less you get in terms of the number of issues.

The McCabe letter is the priciest at $120 for 12 issues on this side of the Tasman.

The weeklies Capital Letter, and NZ Economic News — (the only one which doesn't include postage in its subscription rate) — are the cheapest at regular rates around $45.

Prospective clients are invited to regard the high subscription rates as an investment.

Perhaps "the most profitable investment you'll ever make", claims Money Matters, adding that "only $95 for a whole year" is a small price to pay "considering what it is sure to save you so quickly".

"Almost any issue could save you far more than it costs," claims the Small Business Letter.

A more sophisticated Headliner makes "no apologies" for the price — "coming aboard" will be "one of your best business decisions of the year".

The price is high — but not too high if the information is as good as the promoters claim it to be.

According to Bob Jones, media oracle of New Zealand businessmen, it isn't.

His office colleague, however, subscribes to one of the better-known letters which Jones describes as "junk", though he admits that its constant hammering of potential subscribers by mail is effective promotion.

Business letters, says Jones, *offer a pretence of confidential information to a gullible public.*

The money press, mostly "rats" from the dailies, serve up unconfirmed titbits gleaned from their rounds.

Even the United States, home of business letters, has few or none with any credibility, Jones insists.

Business letters flourished back in the fifties and sixties, he says, when every businessman had a small portfolio of shares. They were basically tip sheets, padded out with general economic information.

There's still a market, despite the swing away from stocks and shares. But publications both here and overseas tend to flog a dead horse, and rely heavily on past successes — American "gold bugs", for instance, are now crowing about their successful gold predictions.

Ron Brierley began his business career with a newsletter. His "Stocks and Shares" gave tips and general comment, and served a purpose in getting his name around business circles before he launched into finance in earnest.

There might be some scope now for a more gossipy, overtly scurrillous publication like the Wall St Whisper, which entrepreneurial expatriates were trying to start up last time Jones was in New York. The many variations of the American business letter include a number that are Washington-based, political in content and gossipy in flavour.

It would be the ideal venture for a live-wire journalist with his finger on the financial and political pulse, who can churn his letters out from a home base with low overheads and publication costs.

The Brierleys of the world may have manufactured business letters, but they don't read them, according to Jones.

The market is strictly among those who can't see the wood for the trees.

Business letters sell to two groups, he thinks. First, large, institutional companies which subscribe to everything automatically. The other group is financial cranks.

"There's an enormous number in New Zealand, especially in investment. Mostly elderly but also the keen, green get-rich-quick variety in the eighteen to twenty-five age group."

Expensive enough here, the sky's the limit for subscriptions in the United States where $300 - $500 is nothing out of the ordinary.

Jones notes that business letters which enjoy high credibility tend to fulfil their own prophesies.

"If X says AB is going to rocket, and everyone buys AB, AB rockets."

Peter Saunders, with a background in business publications, says New Zealand has peculiar problems for conventional publishers.

At the best of times it's hard to make money in the small market.

At present all are having trouble keeping profits up and costs down.

"Newsletters is the growth sector," said Saunders.

"They're cheap to produce compared with the conventional paper or magazine. They're exceptionally expensive when price is related to quantity, so the break-even point is low, and the financial risks not great. Provided the quality is kept high, the potential rewards are considerable."

Increasing pressures on the businessman put a premium on convenience and make a publication with a short reading time and good information well worth his while.

Recent competitors in the business letter market promise everything from the money-tree to the big rock-candy mountain.

These don't depend on the quality of their copy, but on enough buyers in the market to offset the small financial risk involved in the venture.

They might make some small immediate gains, but "will fall by the wayside in the medium term", Saunders suggested.

The current flush is a phenomenon of a period of relative buoyancy in the investment market — "We have an entrepreneurial economy, and people can see an opportunity there to make a quid."

Business letters glean much of their copy from the specialised financial bulletins put out by stockbrokers, banks — and from the newsletters of other, specialist organisations.

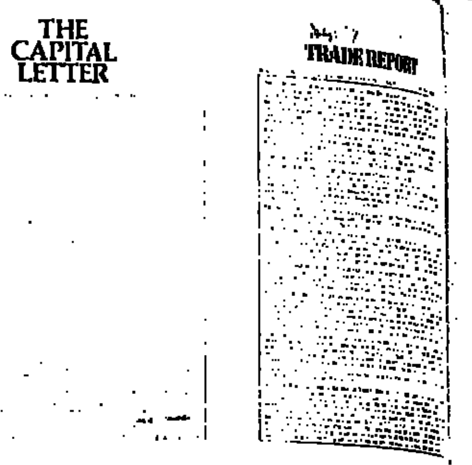
Manpress is put out by the Manufacturers' Federation and finds itself freely quoted in the business letters.

A view from within the federation is that weekly and bi-weekly letters are overtaking the old-established monthly business publications, which have failed to keep up with the times.

These have dwindled in quality, and now contain mostly handouts, extracts from addresses and advertising.

A monthly deadline can't keep up with the accelerated pace of today's business world. As the terser, more frequent publications have flourished, the old monthlies have floundered — and a good thing too, according to one businessman, who said the country was overrun with second-rate business publications.

Though some of the business letters are rip-offs, in concept they have kept up with the pace of change, with the businessman's requirement to keep paper down to a minimum and his need for fast reference systems.



The Economic News, the oldest established of the business letters, sees itself as a provider of information complementary to that supplied by the Manufacturers' Federation.

It has a well-established circulation, "in excess of 5000", according to associate editor David Butler.

It differs from more recent competitors in content — a full page, front cover ad, and a modest amount of advertising inside, whereas the usual formula includes no advertising.

And "we're not into advice on personal investment or tax avoidance," says Butler — areas in which others profess to specialise, playing both on peoples' psychological weaknesses, he thinks, and the generally low level of New Zealanders' economic education.

Founded by the late Christian Elliot, a Rumanian publisher who emigrated to New Zealand in 1950, the Economic News meant anything but a quick quid to Elliot and his wife, Mary, who began by duplicating the f[illegible] issue of 5000 free sampl[illegible] their kitchen in 1952.

It was a period of [illegible] work and hardship according to Mary Elliott, [illegible] the two of them working [illegible] and night, helped by a [illegible] typist, to get out each iss[illegible]

The newsletter followed a[illegible] earlier, disastrous publis[illegible] venture — a grandiose [illegible] paper of local [illegible] international news, on [illegible] the Elliots lost heavily.

The Economic N[illegible] however, met an [illegible] response and flourished [illegible] no competition for [illegible] years, when imitators beg[illegible] enter the market.

Now managed by Ell[illegible] son-in-law, Collin Segde[illegible] Universe Press Agency [illegible] publishes NZ Tenders [illegible] Business Leads, as well [illegible] running a clipping service.

Not a tipsheet though [illegible] "have a role" accordi[illegible] Butler, the Economic N[illegible] aims to supply a [illegible] service, a digest of news fr[illegible] the economic and business point of view. It aims [illegible] thirty minute reading [illegible] and is "basically analysis and a selection of statistical information".

Trans Tasman is middle-aged, brought into being 10 years ago by Australian Press Services which wanted to extend its coverage to New Zealand following the success of its Australian publications Inside Canberra, and Money Matters.

It was pioneered by New Zealand Richard Smelley, formerly employed by the Australian Chamber of Manufacturers, with the idea of developing a closer rapport between Australian and New Zealand businessmen.

The circulation is mainly confined to New Zealand, as there is strong competition on the Australian side — though there are signs that Trans Tasman is trying to strengthen its Australian base in line with the recent talk of togetherness.

The content is mainly business leads, the aim being to present a crisp, pointed summary and to attempt to pick out the main trends.

Neither Trans-Tasman nor the NZ Economic News has suffered from the recent flourishing of competition.

The Headliner is an upmarket neonate, unlikely progeny of the generally staid Mercantile Gazette publications. Like the other newcomers, (The Small Business Letter, Making Money, Business Brief) jostling for shares of a limited market, the Headliner is not modest in its claims.

It promises top journalists who can tap in to "closely protected sources", a quick read of the latest in the sharemarket and the money market, forecasts of future events, a network of strategically placed correspondents at home and abroad, and information on everything from silver to stamps.

The letter was the first work out of big Christchurch printer Bascands Ltd expanded commercial printing plant for the long established (104 years) Mercantile Gazette Ltd, whose stable already includes the Gazette, NZ Shipping Gazette, NZ Tenders Gazette, NZ Company Register and the conservative NZ Company Director and Professional Administrator.

Business letters work under certain disadvantages. The tight format is essential if they are to achieve the aim of getting a lot of information across in a short reading time.

But their small size and great similarity to each other — especially as new arrivals ape the look of the established publications — can work against them.

They are generally regarded as ephemeral, disappear easily or simply don't get passed on.

Clipping services don't clip them unless specially requested. They can be photocopied with great facility, so that their true circulation remains unknown.

The survival rate, as competition hots up, may depend on a strong publishing and financial base and persistent promotion, rather than superior predictive and journalistic skills.

AMONG New Zealand's newsletters — and how they describe themselves — is this line-up.

WEEKLY

Trans Tasman — published by Trans Tasman News Service Ltd, Wellington. Subscription — $48 for 48 issues — "A privately circulated weekly review of New Zealand and Australian affairs."

NZ Economic News — published by Universe Press Agency Ltd, Wellington. Subscription $39 plus postage — "The essential weekly bulletin for executives."

New Zealand Trade Report — published by Chaunter Editorial Associates Ltd, Wellington. Subscription $60 for 48 issues. "Read every Monday by people who need to keep in touch."

The Capital Letter — published by Fourth Estate Periodicals, Wellington. Subscription $45. "A weekly review of administration, legislation and law."

The Main Report — published by Bowden Publicity, Christchurch. Subscription $49.50 but currently "on special" at $30. "New Zealand's most trusted intelligence bulletin."

FORTNIGHTLY

Business Brief — published by Professional Publications, Wellington. Subscription $75. "— a special newsletter. Fortnightly, topical and highly informative."

The Small Business Letter — published at Torbay, Auckland. Subscription $40. A "totally New Zealand oriented edition" of "Australia's most successful newsletter".

The Headliner — published by the Mercantile Gazette, Christchurch. Subscription $48 (special introductory offer $45). "The nation's new private letter on money and financial intelligence".

MONTHLY

Money Matters — published by "Money Matters", Auckland. Subscription $95. "New Zealand's inflation survival letter."

The McCabe Letter. — published by McCabe Enterprises Ltd, Sydney. Subscription (NZ) $120. An "economic newsletter". Information "usually — reliable but not — guaranteed".

Making Money — published by Professional Publications, Wellington, Subscription $49.50 "a wealth of ideas for making money."

Insurers take a hammering

by John Sloan

INSURANCE companies are taking a hammering on domestic business as fires, floods, burglaries and vandalism take their ever increasing toll. But despite concerted attempts by insurers to persuade people to fully insure their houses and contents major under insurance continues.

NBR highlighted the insurers' predicament in 1977: Insurers' main battle is to get people to insure their homes and contents for the full current replacement value. Many people under-insure their properties, but when a claim occurs they expect — and often get — new property for old.

The premium pool is insufficient for insurers to continue receiving premiums based on low values, and at the same time to pay all claims for the full replacement cost of damaged property.

Even the innovative insurers who introduced new domestic policies designed to solve old problems have been hit. The South British Group has recently increased its supersurance premiums due to an adverse claims experience.

And the New Zealand Insurance Company has now restricted its "Peace of Mind" insurances by: imposing higher claims excesses; increasing premium rates; applying minimum sums insured; declining to offer full cover to dwellings over 50 years old; and [illegible] claims settlements [illegible] to carpets, floor [illegible] blinds and curtains.

NZI imposed these [illegible] restrictions to protect [illegible] and policy holders fro[illegible] continuing, deteriorat[illegible] claims experience.

NZI spokesmen said [illegible] problem is not confined to [illegible] company alone. "We bel[illegible] that our competitors no d[illegible] also face the same probl[illegible] and will possibly follow su[illegible] due course".

In an interesting move N[illegible] has introduced a "reasona[illegible] care warranty" wh[illegible] requires "... at all times [illegible] take reasonable care to prot[illegible] the property insured and [illegible] prevent loss, damage [illegible] destruction".

It has always been implied [illegible] insurance policies that peo[illegible] should take reasonable care [illegible] their property. But the NZI ha[illegible] effectively placed the onus [illegible] proof on the insured, that [illegible] the claimants must prove [illegible] have exercised reasona[illegible] care in protecting [illegible] property. Just how this will [illegible] applied in future claims set[illegible] tlements is not known.

While many insurers [illegible] imposing claims excesses [illegible] domestic policies, the Nation[illegible] Insurance Company of Ne[illegible] Zealand is still advertising [illegible] basic "no excess household[illegible] and houseowners" policy. [illegible] very successfully according [illegible] Colin Fleury their Wellingt[illegible] manager. "As people expe[illegible] insurance to cover their loss[illegible] we are capitalising on an [illegible] excess attitude".

Fleury said National[illegible] domestic business had [illegible] creased and claims remained "within acceptable limit[illegible]

Although underinsura[illegible] and inflation were perenni[illegible] problems, Fleury said [illegible] National Insurance Compa[illegible] had no immediate intention [illegible] increasing premium rates, restricting coverage or [illegible] plying claims excesses.

Selling agency maintains grip on stone market

Economics Correspondent

WHILE precious metals have soared in value this year diamonds have slipped back from the heights of 1978. Ken Marston, mining editor of the Financial Times, explains the often mysterious workings of the world's diamond markets.

ECONOMIC uncertainty has driven the price of gold and silver up to record levels as money seeks a safe port in the storm. But while diamonds are still a girl's best friend they have not always been as kind to the investor as precious metals.

While gold has continued its onward march against even the hardest currencies diamonds have tended to perform rather less well this year. Why?

In 1978 hedging against currency fears was so strong in the diamond market that dealers in the processing chain which runs from newly-mined rough stones to polished rings in the jewellers, were holding on to their stock in trade rather than sell it to the next man in the usual manner.

The Central Selling Organisation, which markets 85 per cent of the world's rough diamonds on behalf of De Beers and other producers came perilously close to losing its grip on the market. The function of the CSO is to regulate the supply of diamonds and to fix prices in order to avoid the boom and bust cycle that can, and does, occur in other commodities.

Because of this witholding of stocks from the processing chain, prices of the diamonds that were getting through soared and there was the fear that when the accumulated holdings of diamonds were eventually released, prices would slump.

Not to put too fine a point on it, the diamond mines were selling at relatively low prices to the CSO and thus missing the "gravy" that was sloshing around freely in Tel Aviv, Antwerp and other diamond centres.

The CSO moved fast. It clapped on temporary price surcharges that reached 40 per cent at one time. This, coupled with some squeezing of credit, had the desired effect of flushing out the bottleneck.

Diamonds again moved along the chain as before, but after removing the surcharges the CSO was still able to make a "normal" price increase of 30 per cent in August. Total sales handled by the CSO in 1978 came out at a record $2.2 billion compared with $1.8 billion in 1977.

This year more normal conditions have returned to the diamond market, despite the further strong advance seen in gold. Demand for the larger gem stones of one carat and above — there are 142 carats to the ounce — has kept up well, but the smaller gems, which are the ones that dominate show cases in the high street jewellers, have been moving slowly.

CSO sales for the first half were 4 per cent down on those of the second half of 1978 and the chances of a further rise in CSO prices seemed small.

However, recently the CSO has announced that it is making an unspecified increase in the prices of the larger gems — varying in line with their size and quality — and that this will have the effect of an overall rise in prices of 13 per cent. Prices of the tiny diamonds used in industry are not affected.

Why the increase? In the strange and often secret world of diamonds many questions go unanswered — only an expert of many years' standing can truly value a diamond and even the experts can disagree.

But at the last of the 10 regular "sights", which are held each year for selected dealers to buy CSO uncut stones, the demand appeared to improve again and the latest increases will be weighted heavily on the high value stones which tend to be bought for investment purposes.

This points to fears of a deepening world currency crisis; a similar signal is being hoisted by gold. The CSO may thus feel that, in the light of last year's experience, some early avoiding action may be justified.

At the same time, it must be remembered that diamonds are priced in dollars and the latest price increase is fully justified by the fall in that currency over the past 12 months.

By the same token, De Beers, as a South African company, has been losing out on sales revenue as a result of the appreciation in the value of the South African rand of just on 4 per cent against that of the dollar.

The CSO, which is seldom wrong, thus takes a favourable view of the market with its latest price increases. They do not apply to rough gems of under one carat and theoretically there should be no increases in the prices of most stones in the high street jewellers.

The vast majority of polished diamonds sold are up to about 30 points — there are 100 points to a carat — and a rough gem of one carat usually yields a cut and polished stone of 50 points.

Whether or not the jewellers will still raise the prices of diamonds, with an eye to higher stock replacement costs, remains to be seen.

DIAMOND . . . polisher examines gem's facet

"Could you come in a moment, Edna—I'd like a second opinion of whether consultants are more money ..."

LETTERS

Medicine treats illness

BELINDA Gillespie reports Health Minister, George Gair's remarks to a meeting of Australian Radiologists (NBR August 22) — "he questioned if the country could afford more high technology machinery for cancer treatment" and that, "even if we could by some modern miracle eliminate all cancer causes, the average life span of New Zealanders would increase by about two years only".

Mr Gair has made this remark on several occasions, and as it is doubtful if he has used his pocket calculator to work it all out, it presumably reflects Health Department thinking.

Medicine is treating illness, and measuring prolongation of life is only one parameter of its effectiveness and not necessarily the most important one. An excellent example is a hip replacement operation, which does nothing to prolong life but can restore a patient with severe arthritis of the hip, which is both painful and debilitating, back to entirely normal, painless, function. Economically, (and this is apparently Mr Gair's main interest in medicine) this makes good sense as well as good medicine.

Mr Gair's comments take no account of the quality of life that can be obtained with modern medicine. This is true of newer methods of cancer treatment. Within the last few years cancer patients are living longer and better lives, even when not cured.

At present, advances in cancer are nearly all related to its treatment, although undoubtedly present and future research will contribute a great deal to early detection and prevention.

However, these latter two *are not* feasible methods in solving the cancer problem at the moment, except in the case of lung cancer, the commonest cancer in males in New Zealand, over 90 per cent of which could be prevented by not smoking.

The real purpose of this letter, however, is to decry the abuse of modern technology in medicine by public officials, who too often allow it to be used as a convenient scapegoat.

Good medicine requires good technology, and in this country it is expensive because it has to be imported. However, remoteness from areas of development also has advantages in that such technology has usually been soundly justified and fully developed by the time it reaches this country and a National Health Service can see that it is strategically sited and fully utilised.

What unfortunately happens is that the technology is surrounded by cumbersome and inefficient bureaucracy, one good example of which is seen in the introduction of computer systems to medicine. NBR has reported the results of the Auditor General's report (July 25, 1979) showing gross overspending by $5.3 million to a total of nearly $24 million by trying to provide a centralised computer system.

While the Government argues that inflation is responsible for much of this over-run (as if inflation were invented yesterday), the fact remains that the computer system does not appear to have benefited one patient in this country, and has apparently run into such serious problems that its implemention to the major hospital boards, even for such routine chores as pay rolls, admissions and discharges, and pathology services, is continually being delayed.

The Government has opted for a national system rather than allowing cheap flexible mini computer systems to develop locally in response to local demand.

Such centrally controlled and managed systems are not the answer to medical needs. They remove responsibility from scientific and medical personnel concerned and encourage a bureaucratic, rather than a scientific, approach to problem solving.

The Health Department's main priority with the computer system appears to be the need to maintain control over its application at all costs.

There are numerous examples of lesser forms of abuse of this technology.

Because of administrative inflexibility, there is little incentive for an individual hospital department to investigate cost saving methods.

For example, replacement parts for some of the more expensive machinery in some hospital departments can be purchased on the local market for less than half the replacement costs from the overseas supplier. This, however, requires some effort in locating a supplier and setting up an efficient stock system, so an adequate supply of parts is available on site, overcoming the delays to which New Zealand is perennially prone.

The only obstacle, however, is the total lack of incentive; in fact it probably has an adverse effect when current spending continues to be used as an indicator for the finance available for ensuing years, as any money saved is unable to be credited to that department.

Medical technology is expensive, and there should be greater emphasis on its efficient utilisation, rather than using emotive arguments. The equipment to which the Minister refers, can, in fact, be economically and medically justified, provided it is not surrounded by New Zealand's own brand of administrative inefficiency.

A J Gray
Convener
NZ Cancer
Conference (1979)

Consultation pays off

I AM employed by the New Zealand Printing and Related Trades Industrial Union of Workers as a field representative. My personal opinion of the article on the inter-union working party's report on new technology (NBR September 26, 1979) is that one important point was missed.

The commitment of unions to the concept of social accountability, based on the need to ensure that investment decisions, reflect the interests of the whole community.

Polemic aside, overseas experience indicates that microprocessors are having a dramatic effect on traditional skills and employment. Nobody wants to see technology which can transform society resisted for reasons of fear or ignorance.

The working paper is an attempt to begin to develop a policy that will ensure that the benefits go to all.

The obvious next step is joint consultation between the Employers' Federation, the FOL, and the Government. The alternative is to muddle through increasing unemployment, social problems, industrial disputes and the resultant social chaos.

The answers will not be found in legislation or battles between employers and workers. Only by approaching new technology with a willingness to find solutions that are satisfactory to everybody will the benefits be realised.

This has been borne out in the printing industry by contrasting the different approaches of Wilson and Horton (NZ Herald) and the INL Group. That the fully consultative approach of Wilson and Horton has paid off can be proved by comparing the annual reports and balance sheets of both companies.

Colin Chiles
Field Representative
Printing & Related Trades
Industrial Union of Workers.

Union report on technology

YOUR special correspondent reviewing a trade union report on "new technology" (NBR September 26) was right to question the assertion that the potential for exporting computer software is overstated.

As the example quoted, we can confirm that SPL's Progeni System is neither the first nor, if we have anything to do with it, will it be the last system that we shall be marketing overseas.

We are developing the infrastructure required for this very purpose and have permanent offices in Los Angeles, Melbourne and, from December 1, in Sydney. From these beginnings we see ourselves as being in a position to offer not only our own products but also other New Zealanders' work in the world market place. We aim to export know-how not people.

We have earned over $1.4 million. Overseas marketing is expensive and even with the incentives SPL has spent substantial sums to establish an overseas presence. Resources to exploit the overseas market must come from somewhere and to succeed our industry needs a firm local base. We don't need protection but we do need support.

We feel that we should get it. After all, we are a labour intensive industry and thus an area where industry, unions and government share common ground and should be cooperating to encourage expansion.

Systems & Programs (NZ) Ltd
P W Harpham,
Managing Director

Tariff rise reflects policy

YOUR Economics Correspondent (NBR September 26 1979) risks losing credibility in likening the Governments' decision on electric energy pricing to the decisions made by private businesses and by private householders. One would expect an economist to appreciate that the electricity tariff increases of the last few years are dictated by the urgent need to re-structure the economy along the lines often described by the phrase "user-pays".

The recent increases in electricity prices reflect the Governments' long announced intention to contribute an increasingly greater proportion of capital costs from revenue. The burden of national debt created by past and future investments in generating plant must be kept to a manageable level.

The alternative to the Government's present policy is to finance future plant from even larger loans — an expedient which is becoming increasingly expensive. The consumer must ultimately meet the cost in either case, whether by increased personal taxation or increased tariffs.

It is preferable that consumers should appreciate the value of electricity through realistic tariffs. A private business running the electricity industry in New Zealand in the way suggested by your correspondent would have as its first aim sustaining and possibly increasing the profit on its capital investment.

On this basis I suggest our tariffs would be at least 50 per cent more than they are at present. Furthermore they would have increased decades ago to reach that level more gradually. It was the neglect by the Kirk administration of the user-pays principle which made the recent electricity price increases steeper than they would otherwise have been.

No one would deny that a private household usually finances a major investment with borrowed money. But your correspondent's corollary with major Government investments is untenable in that when a family makes a long-term major investment, it nearly always arranges to obtain full equity, at least in one generation.

On the other hand the State invariably re-finances its loans. Economics Correspondent seems to have allowed an anti-Government bias to get the better of his-her professional judgment.

JDC Laing
Auckland

Combination gives cover

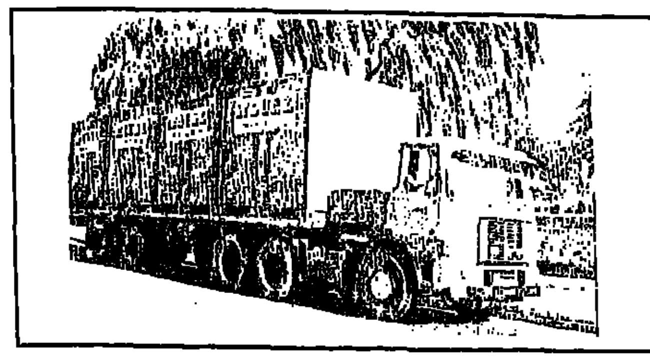
CONGRATULATIONS to Warren Berryman for his excellent article, "Term policy combines with super as life cover" — (NBR October 3, 1979).

MFL Mutual Fund (formerly NZ Mutual Funds) was the successful pioneer of this concept of combining cheap term life cover with a high-earning tax-saving investment which completely buries whole of life and endowment insurance.

We have just completed our tenth year of operations and all of the fund's members are doing even better than the tax-free cash accumulations shown in Mr Berryman's graph.

R M Smith
General Manager
MFL Mutual Fund

Brokers scout transport sector for investments



THE short to medium term outlook for the transport sector as a whole is "not encouraging", according to a report from stockbrokers R A Jarden & Co.

The Jarden report tips Freightways, however, and to a lesser extent TNL, as two companies likely to go against the continuing trend in the sector of low returns on investors funds and sluggish growth in profitability.

The report says the transport industry's profitability and investor returns have been below average over recent years.

"For the six years ended June 30, 1979 the transport sectors' gross investment returns ranked 21 out of our 22 sector indices; for the one and three year periods to the same date the industry's rank was 15 and 19 respectively."

The Jarden analysts point to three immediate problems as holding down the sector's ability to perform at a more acceptable level:

"It is widely anticipated that the price of liquid transport fuels will continue to rise through the 1980s." The report says that conversion to LPG will be limited in the short term because of the shortage of supplies, and because large volumes of CNG needed for reasonable travelling make it unsuitable for heavy vehicles. The development of synthetic gasoline however, "gives rise to some hope on a longer term basis".

Despite the Drivers' Union being "active and volatile", Jarden says the industry suffers more from other industrial stoppage such as in the railways or in freight forwarding firms "than from internal unrest".

"The high replacement cost of trucks is currently preventing some firms from replacing vehicles." The report warns that higher repair and maintenance costs and higher capital requirements in future will result from operators' problems with servicing loan capital during the current period of low economic activity. "The recent devaluation and any further decline in the value of the New Zealand dollar will increase this problem."

Road transporting is one of the country's least concentrated industries. Over half the firms have only one truck, and of members of the Road Transport Association, 72 per cent own four or fewer vehicle authorities. The hundred largest firms own about a quarter of the industry's trucks with two firms, Freightways and TNL owning about 3 per cent each.

With a tight system of profit control and cost recovery administered by the Transport Ministry and no significant economies of scale in regional transporting, "the industry operates largely on a cost plus approach", with an 11 per cent profit margin allowed over costs before interest charges.

A study of the transport industry by Lincoln College's Agricultural Economics Research Unit found rate regulation favoured small firms over larger units. (see NBR August 29)

"A preponderance of non-optimal sized firms has been perpetuated by the absence of competitive forces. Both barriers to entry and price control ensure the survival of firms not producing at minimum cost."

The Jarden report comments that "road transport licensing has tended to set the boundaries within which competition takes place rather than restricting competition."

According to the report the problems of capital and cash flow created by the road user charges tax scheme would be made greater by delicensing.

"Delicensing would have an adverse effect on the profitability of transport companies. However, we believe it is unlikely to occur in the short to medium term."

The freight forwarding industry is much more concentrated than the road transport industry, with about 90 per cent of the business in the hands of four major firms — Alltrans and Freightways with 30 per cent each; Brambles Burnett with 20 per cent and Mogal with 10 per cent.

Despite the significant foreign ownership in freight forwarding in New Zealand, the Jarden report does not believe there will be any major government moves to restrict this or to further involve the Railways in this activity.

"Freight forwarding by its very nature involves a certain degree of personal service not suitable for state involvement. State involvement ... would also be contrary to the recent direction of National Government policy."

Jarden surveyed the financial results of four major transporting companies: Freightways, Transport North Canterbury, TNL and Brambles Burnett.

While "average returns from the industry should continue to underperform the market mean over the next year or two", Jarden says Freightways and to a lesser extent TNL should prove the exceptions because of "superior operating efficiency and growth potential in other non transport related areas".

Jarden is not recommending investment in Brambles Burnett saying the company "is not well placed in the present situation".

Low load factors in the company's rural division-which accounts for about half the road transport division's revenue-have left returns "relatively more affected by the new road tax system". The profitability of the freight forwarding division "has also tended to fluctuate markedly".

Brambles diversification into construction and automotive industries has also not impressed Jarden. Holdings in associate companies (Chep Handling systems, Cooltainer Services, Industrial Waste Collections and Cameron Transport) have made "a relatively small profit contribution".

"The outlook for the group is not particularly encouraging ... the main non-transport subsidiaries are trading in difficult areas while the more strongly based associates do not provide the necessary cash flow to materially assist the group."

Of Transport North Canterbury Jarden says "growth prospects are limited in the medium term. Although the company has diversified into a sand and shingle plant and a ready mixed concrete operation in Christchurch, neither of these operations appear to offer growth potential".

Overall the company's fortunes "are closely tied to the level of activity in the rural sector . . . and we do not recommend investment.

Of the four companies surveyed TNL is the most diversified with only 30 per cent of its revenue coming from road transport (excluding passenger transport).

About half the road transport business is on term contract and is unaffected by price control but Jarden says "TNL's diversification presents a mixture of strong and reasonably speculative activities".

Tourism gives TNL 40 per cent of its revenue but a downturn in the Australian market has been balanced by budgetary incentives for companies selling tourist packages overseas — as TNL does for 80 per cent of its tour business.

The expansion into kiwifruit at Te Puke has a "rather long pay back period" but the sale of Redwoods Valley Farm (near Nelson) should provide "significant capital profits for tax free dividends".

TNL's subsidiaries in minerals are performing profitably but the oil exploration venture (through L & M) has been frustrated and construction activities have also been run down, though the latest move into deer farming "should prove highly profitable" eventually.

Jarden's assessment is that TNL's future lies "more in tourism and horticulture than in road transport". With the outlook for these somewhat uncertain "assessment of the group's growth prospects is difficult".

Freightways emerges as the clear favourite. In road transport and freight forwarding it's concentrating on specialised bulk movement of liquids, containers, logs and wool. According to Jarden these less traditional areas are less competitive and therefore more profitable.

In addition, "one of Freightways major strengths is its highly profitable activities in other areas". These cover security and payroll services, the courier division, and Bandag Industries which retreads truck tyres.

The company also has holdings in a major caustic soda supplier and in Cameron Transport.

Freightways is "strongly recommended . . . as the strongest listed company operating in the transport sector . . . with good growth potential providing above average returns in the medium to long term".